

Canada Trustco Annual Report 1978



Canada Trust





Canada Trust Building, Calgary



Head Office, London



Canada Trust Tower, Vancouver



Canada Trust's capacity to serve customers depends on the location and quality of our rapidly expanding branch network. Many of these locations are also excellent corporate investments; 55 of our 150 financial services branches are in company-owned premises, as noted on pages 31 and 32. We are constantly evaluating equity participation in new and existing locations.

In 1978 we announced arrangements for new facilities for our Pacific Regional Office and Vancouver

Main Branch and our Prairie Regional Office and Calgary Main Branch. These decisions will significantly enhance future Canada Trust awareness in both of these dynamic cities.

The new Canada Trust Tower, in the financial heart of Vancouver, is located in the exciting Bentall Centre. When completed in 1981, the building will be the largest in Vancouver, rising 35 storeys, with almost 700,000 square feet of office and retail space. Canada Trust participation in ownership will be 25%.

The new 18-storey Canada Trust Building, at 5th Ave. SW and 3rd St. SW in downtown Calgary, is slated for completion in the Fall of 1979.

Also pictured is the 21-storey Canada Trust Tower, home for over 400 Head Office employees as well as our London Main Branch. Built in 1974, the City Centre complex, including our building, a retail mall and two other towers, is 10% owned by Canada Trust.

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FOCUS ON INVESTMENTS

This year's Report highlights various recent investments.

It was a banner year for equity financing and our participation in a number of major issues provided attractive returns as many corporations across the country expanded their productive capacity.

Most of these new investments pay interest or dividends at a floating rate based on bank prime or other money market rates. This type of interest-sensitive asset in our portfolio closely matches interest-sensitive liabilities such as demand deposits.

Photographs representing some of our major investments appear throughout the Report to Shareholders.

Annual General Shareholders' Meeting
11 a.m. Tuesday, February 20, 1979
Holiday Inn, City Centre Tower,
London, Ontario

Preference shares series B convertible
and common shares are listed on
Toronto, Montreal and Alberta
Stock Exchanges.

V-Day valuation of common shares as
at December 22, 1971 is \$25.00.

Head Office: Canada Trust Tower,
275 Dundas St., London, Ontario,
Canada N6B 3L1

Executive Office: Canada Trust Building,
110 Yonge St., Toronto, Ontario,
Canada M5C 1T4

Member of The Trust Companies
Association of Canada.

CANADA TRUST TO OFFER MASTER CHARGE

In November, 1978, Canada Trust became the first non-bank Canadian financial institution to announce participation in either of the two major charge card systems. Agreement was reached in principle with the Bank of Montreal and the Provincial Bank of Canada to offer Master Charge, subject to approval of the international licensor, Interbank Card Association. We expect to begin issuing cards in September, 1979.



DIRECTORS

All those listed are Directors of Canada Trust

- ° Canada Trustco Directors
- * Members of Executive Committee

°* A.E. BARRON, Toronto
Chairman, Canadian Tire Corporation Limited

°* WALTER A. BEAN, Waterloo
Chairman, Economical Mutual Insurance Company

WALTER J. BLACKBURN, London
Chairman & Publisher, London Free Press Printing Company Limited

R.P. BRATTY, Toronto
Barrister and Solicitor

C.W. BRAZIER, Vancouver
Barrister and Solicitor

HUGH CAMPBELL, Ottawa
Corporate Director

C.R. CLARKE, London
Vice-President - General Counsel and Secretary, Canada Trust

° G.E. CREBER, Toronto
Corporate Director

°* JOHN B. CRONYN, London
Corporate Director and Consultant

°* FREDERICK W. DAKIN, Hamilton
President and Chief Executive Officer, The G.W. Robinson Company Limited

G.H. DOBBIE, Cambridge
Corporate Director

T. EDMONDSON, St. Catharines
Honorary Chairman, Ferranti Packard Limited

E.F. FINDLAY, Toronto
Chairman and President, Silverwood Industries Limited

REFORD GARDHOUSE, Milton
Corporate Director

°* J.D. HARRISON, London
Barrister and Solicitor

W. HOWARD HEMPHILL, Stratford
Chairman, Imperial Furniture Mfg. Co. Limited

ELMORE HOUSER, Toronto
Barrister and Solicitor

°* A.H. JEFFERY, London
President, London Life Insurance Company

C.C. KNUDSEN, Vancouver
President and Chief Executive Officer, MacMillan Bloedel Limited

°* M.L. LAHN, London
President and Chief Operating Officer, Canada Trustco

°* TOM LAWSON, London
Vice-President, Canada Trustco
Chairman and President, Lawson & Jones Limited

°* K.R. MacGREGOR, Waterloo
Chairman, The Mutual Life Assurance Company of Canada

DUNCAN McINTOSH, Cambridge
Retired Executive

° M.C.G. MEIGHEN, Toronto
Vice-President, Canada Trustco
Chairman, Canadian General Investments Limited

°* ARTHUR H. MINGAY, Toronto
Chairman and Chief Executive Officer, Canada Trustco

KENNETH G. MURRAY, Kitchener
President, J.M. Schneider Inc.

CARL O. NICKLE, Calgary
President, Conventures Limited

° LOUIS RASMINSKY, Ottawa
Corporate Director

KENNETH A. ROBERTS, Toronto
Chairman, Goldale Investments Limited

E.G. SCHAFER, Kitchener
Corporate Director

J.E. FROWDE SEAGRAM, Waterloo
Chairman, Canbar Products Limited

G.E. SHARPE, Winnipeg
President, Sharpe's Limited

W.H. SPRAGUE, Edmonton
Chairman, Sprague Drug Limited

W.J. STENASON, Montreal
Executive Vice-President, Canadian Pacific Investments Limited

R.W. STEVENS, Toronto
Barrister and Solicitor

JOHN D. STEVENSON, Toronto
Barrister and Solicitor

J.J. STUART, Windsor
Chairman and President, J.T. Wing Limited

°* J. ALLYN TAYLOR, London
Honorary Chairman, Canada Trustco

NOAH TORNIO, Toronto
Chairman and Chief Executive Officer, Jordan & Ste. Michelle Holdings Limited

RAYMOND A. WHEELER, London,
England. Executive Director, Hambros Bank Limited

PETER N.T. WIDDRINGTON, London
President and Chief Executive Officer, John Labatt Limited

° J.D. WILSON, Vancouver
Corporate Director

R.B. WILSON, Victoria
President, The B. Wilson Company Limited

Honorary Directors

W.J. BEATTY
HENRY BORDEN
J.V. CLYNE
GORDON FARRELL
W.W. FOOT
COLIN S. GLASSCO
HAROLD H. LEATHER
O.E. MANNING
C.A. MARTIN
H.S. MATTHEWS
HUGH L. McCULLOCH
W.J. McGIBBON
G.E. ROBERTSON
JOHN W. SCOTT
J. GORDON THOMPSON
ALFRED S. UPTON
A. ERNEST WALFORD
CLARENCE WALLACE
G.E.G. WHITAKER

TEN YEAR RECORD

	1978	1977	1976
For the year (in thousands)			
Income			
Investment	\$ 466,325	\$ 396,591	\$ 292,724
Fees and commissions	36,132	32,770	27,867
Other	8,770	7,613	5,976
	<u>511,227</u>	<u>436,974</u>	<u>326,567</u>
Expense			
Interest on deposits	372,683	307,312	236,345
Salaries, employee benefits and commissions	57,149	51,273	40,786
Other	37,793	32,239	23,224
	<u>467,625</u>	<u>390,824</u>	<u>300,355</u>
Earnings before income taxes	43,602	46,150	26,212
Income taxes	11,718	16,164	8,509
Net earnings	<u>\$ 31,884</u>	<u>\$ 29,986</u>	<u>\$ 17,703</u>
At year-end (in thousands)			
Assets under administration	\$9,484,000	\$7,860,000	\$6,891,000
Personal, pension and pooled trust funds	4,333,000	3,460,000	3,189,000
Deposits	4,884,000	4,163,000	3,524,000
Loans	3,980,000	3,393,000	2,974,000
Shareholders' equity	222,000	189,000	147,000
Per common share			
Net earnings			
Basic	\$ 3.88	\$ 3.76	\$ 2.57
Fully diluted	3.61	3.50	2.47
Fully diluted and deflated by the consumer price index 1969 = 100	1.94	2.05	1.56
Dividends paid including tax paid on Class B dividends	1.34	1.30	1.20
Shareholders' equity	20.66	18.15	15.71
Market price			
High	29½	29	26½
Low	22½	20¾	18¾
December 31	23¾	29	21
Price-fully diluted earnings multiple, December 31	6.6	8.3	8.5
Statistical data at year-end			
Number of shares outstanding			
Preference series A	312,059	312,059	325,000
series B	1,500,000	1,500,000	1,500,000
series C	56,377	56,437	56,437
series D	1,250,000	1,250,000	
series E	750,000		
Common Class A	6,780,445	6,772,619	6,800,576
Class B	208,526	216,144	188,087
Percentage of shares held in Canada	99	99	99
Number of shareholders	7,241	7,252	7,401
Volume of shares traded during the year			
Preference series B and C	347,000	450,000	215,000
Common Class A and B	696,000	582,000	402,000
Number of branches and mortgage offices	154	138	125
Number of full-time employees	2,857	2,667	2,451
Number of regular part-time employees	396	304	257
Number of real estate offices	53	58	56
Number of real estate sales representatives	531	594	578

1975	1974	1973	1972	1971	1970	1969
\$ 219,984	\$ 181,346	\$ 149,793	\$ 129,796	\$ 114,946	\$ 101,691	\$ 83,806
26,004	21,257	17,747	14,492	11,678	10,283	7,767
5,102	4,592	2,620	2,134	2,343	2,015	1,858
<u>251,090</u>	<u>207,195</u>	<u>170,160</u>	<u>146,422</u>	<u>128,967</u>	<u>113,989</u>	<u>93,431</u>
175,005	148,038	110,055	92,779	84,573	80,660	64,109
34,362	27,816	22,002	17,635	14,625	12,736	10,564
18,284	14,743	13,007	11,648	9,560	8,979	8,108
<u>227,651</u>	<u>190,597</u>	<u>145,064</u>	<u>122,062</u>	<u>108,758</u>	<u>102,375</u>	<u>82,781</u>
23,439	16,598	25,096	24,360	20,209	11,614	10,650
9,360	7,569	12,194	11,178	9,952	5,666	5,086
<u>\$ 14,079</u>	<u>\$ 9,029</u>	<u>\$ 12,902</u>	<u>\$ 13,182</u>	<u>\$ 10,257</u>	<u>\$ 5,948</u>	<u>\$ 5,564</u>
\$5,563,000	\$4,771,000	\$4,167,000	\$3,704,000	\$3,228,000	\$2,852,000	\$2,574,000
2,937,000	2,547,000	2,259,000	2,039,000	1,753,000	1,527,000	1,375,000
2,483,000	2,111,000	1,808,000	1,577,000	1,398,000	1,255,000	1,139,000
2,151,000	1,868,000	1,610,000	1,410,000	1,251,000	1,112,000	981,000
121,000	89,000	78,000	72,000	64,000	57,000	47,000
\$ 2.17	\$ 1.61	\$ 2.34	\$ 2.39	\$ 1.86	\$ 1.17	\$ 1.13
2.14						
1.45	1.21	1.95	2.15	1.75	1.13	1.13
1.20	1.20	1.15	.93	.59	.53	.52
15.06	14.54	14.15	13.06	11.66	10.41	9.55
27	31¼	34¼	35	26¼	20⅞	18½
22	16⅞	26½	24½	19¼	14¼	14½
24½	23½	31¼	34	24½	20⅞	16¼
11.4	14.6	13.6	14.2	13.2	17.2	14.8
380,280	425,000					
1,500,000						
5,521,088	5,521,088	5,521,088	5,521,088	5,521,088	5,521,088	4,911,856
99	99	98	98	98	98	98
6,309	4,612	4,654	4,617	4,558	4,678	4,763
263,000						
443,000	321,000	480,000	423,000	459,000	560,000	539,000
96	93	87	82	81	82	79
2,224	2,226	2,105	1,986	1,889	1,868	1,795
179	188	128	25	47	41	39
48	46	42	36	23	18	16
460	368	320	245	151	116	100

REPORT TO SHAREHOLDERS

DIRECTORATE

At the annual general shareholders' meeting on February 21, 1978, J. Allyn Taylor retired as Chairman and was named Honorary Chairman in recognition of his outstanding contribution to the growth and stature of the Company during a distinguished career extending over 42 years. Mr. Taylor's advice continues to be available as a Director and member of the Executive Committee.

Arthur H. Mingay was elected Chairman and Chief Executive Officer. Mervyn L. Lahn was elected a Director of Canada Trustco and Canada Trust and a member of the Executive Committee coincident with his election as President and Chief Operating Officer.

John B. Cronyn, a Director of Canada Trustco, was elected a Director of Canada Trust and a member of the Executive Committee.

A.E. Barron, a Director of Canada Trustco and Canada Trust, was elected a member of the Executive Committee.

Reford Gardhouse was elected a Director of Canada Trust.

Wesley J. Beatty, H.S. Matthews and W.J. McGibbon were not eligible for nomination as Directors because of statutory age limitation and were named Honorary Directors in recognition of their valuable contribution over many years.

John Anderson, now resident in the Bahamas, did not stand for re-election at the annual meeting.

During the year we recorded with deep regret the deaths of three Honorary Directors, V.P. Cronyn, a former distinguished Chairman of the Company, Mervyn J. Smith and C.N. Weber.

LEGISLATION

Proposed Bank Act amendments were introduced during the year and, attendant thereto, a Bill to establish a Canadian Payments Association. It remains the Federal Government's intention to have this proposed legislation enacted prior to the current extension of the Bank Act expiring on March 31, 1979.

The Bill respecting the Canadian Payments Association provides for voluntary membership of any company in the Trust and Loan industry and would not require such company to maintain reserves with the Bank of Canada.

Throughout the year the Trust Companies Association of Canada has continued discussions with the Federal Superintendent of Insurance on proposed revisions to the Federal Trust and Loan Companies Acts. The review of these Acts is even more significant to our industry than proposed

amendments to the Bank Act and it is vital that there be no undue delay in proceeding with necessary revisions to this important legislation. When introducing the proposed new banking legislation, the Minister of Finance referred to a review of the desirability of a new Savings Bank Act and our industry is encouraging the Federal Government to proceed immediately with such a review.

It is still expected that a revised Bill for a Borrowers and Depositors Protection Act will be reintroduced into Parliament sometime this year.

ACKNOWLEDGMENT

The Directors acknowledge the skills, diligence and resourcefulness of all our people during another year of worthwhile accomplishment and compliment them particularly on being so highly innovative in responding to the needs and the convenience of customers.

EARNINGS

Net earnings in 1978 at \$31.9 million were up modestly from \$30.0 million in 1977. After dividends on preference shares, net earnings per common share - basic were \$3.88 compared with \$3.76 in 1977, computed on the weighted average number of common shares outstanding.

Canadian Utilities Limited used equity financing, in which Canada Trust participated, for the construction of this ethane plant near Edmonton, Alberta.



With other major investors, Canada Trust provided the equity financing required by B.C. Telephone for general corporate growth and reduction of short-term borrowing.



On a fully diluted basis, which assumes conversion of all outstanding preference shares series B and C to common shares, net earnings per common share were \$3.61, up 3% from \$3.50 in 1977.

The principal reason for lack of significant earnings growth was the failure of net investment income - the difference between interest charged to borrowers and that paid to depositors - to keep pace with growth in corporate assets. Net investment income amounted to \$94 million in 1978, an increase of \$4.4 million or 5% over the previous year, whereas corporate assets grew by 17%.

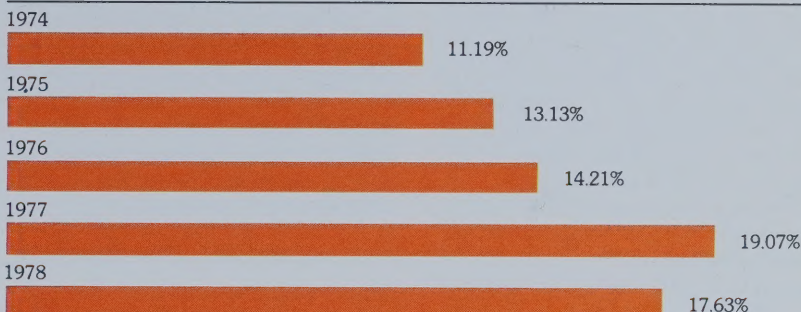
The consequent decline in interest rate spread on a taxable equivalent basis was .20% from 2.13% in 1977 to 1.93% in 1978. As can be seen from the table of maturities on page 24, investments remain somewhat longer in term than deposits. In periods of rising interest rates the cost of funds borrowed increases more rapidly than income from investments. Earnings growth is thus restrained during periods such as 1974 and 1978 and accelerates sharply in an environment of declining interest rates such as occurred in 1977.

Six increases in prime lending rate during 1978 - from 8¼% to 11½% - coupled with extremely competitive lending conditions wherein mortgage rates rose less than term deposit rates, exacerbated interest rate spread. In the last quarter of 1978 spread was 1.71% compared with 2.24% in the final quarter of 1977.

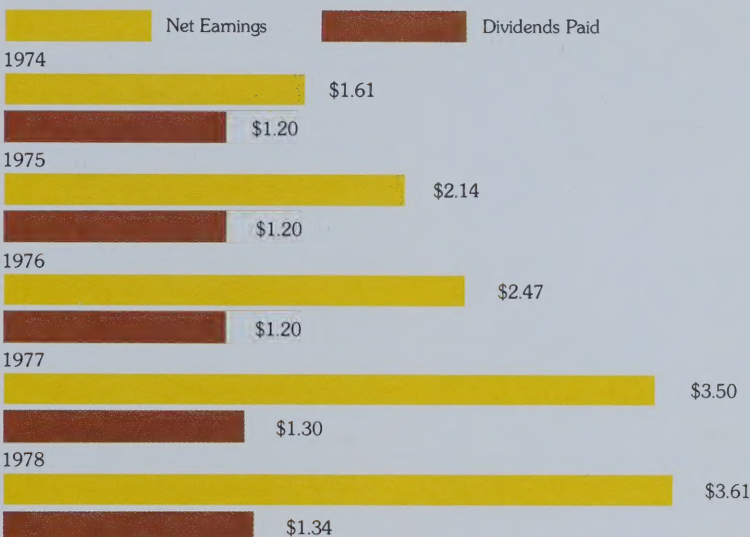
Significant progress has been made in better matching of investment and deposit maturities over recent years. This together with acquisition of a greater volume of interest-sensitive or floating rate investments continues as a high priority. However, further progress will be slow until much needed changes are forthcoming in legislation and regulation respecting Trust and Loan Companies.

Fees from trust operations have been under A.I.B. restraint for the last three years and none have been increased notwithstanding unrelenting increases in costs. Trust fees earned in 1978 amounted to \$19.2 million, an increase of 13% from \$17.0 million in 1977 but below the 25% increase in value of trust assets administered. Selective and much needed increases in trust fees are being introduced in 1979.

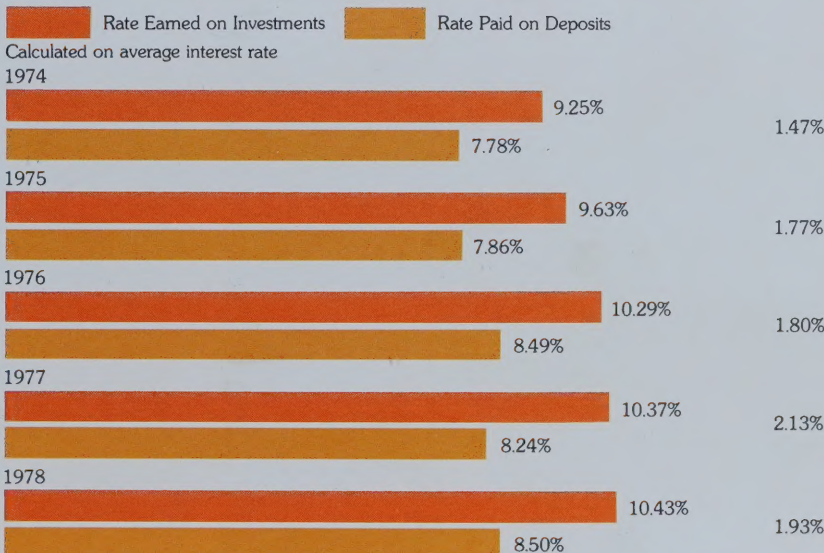
Return on Common Shareholders' Average Equity - Fully Diluted



Net Earnings - Fully Diluted and Dividends Paid Per Common Share



Interest Rate Spread - Taxable Equivalent Basis



Non-interest operating expenses at \$95 million were up \$11 million or 14% from \$84 million in 1977. Net occupancy and equipment expenses rose 18% to \$15.4 million reflecting major enhancements to our data processing capabilities and rapid expansion of our branch system. The rate of increase in these costs is expected to moderate in 1979 due to a planned reduction in number of branch openings.

Other expenses as detailed in note 9 rose inordinately, in large measure due to a severe increase in capital tax by the Province of Ontario.

Cost control programs and restraint in additions to staff programs are in effect. Notwithstanding their conscientious application by all personnel there is faint likelihood of significant reduction in relative expense levels due to so many necessary cost items, from postage and telephone to fuel and municipal taxes, being largely beyond our control.

The effective rate of income taxes at 27% in 1978 was down from 35% in 1977. In the last two years many Canadian corporations found it advantageous to raise equity capital by issuing floating rate retractable

preferred shares. These securities, because of interest rate sensitivity, were a most attractive investment medium and substantial holdings were acquired. Because dividends from these preferred shares are paid out of the issuer's after-tax income, they are non-taxable when paid to a corporate holder. Thus, there is a reduction in the 1978 effective rate of income tax.

ASSETS UNDER ADMINISTRATION

Growth in business volumes was well maintained. Assets under administration at year-end 1978 were \$9.5 billion, an increase of 21% from December 31, 1977, and a 325% increase in the past decade.

Corporate assets increased by \$751 million or 17% to \$5.2 billion. Personal, pension and pooled trust funds under administration increased by \$873 million or 25% to \$4.3 billion.

Shareholders' equity increased by \$33 million from one year prior to \$222 million at year-end. Capital stock increased \$15 million by virtue of issuance of floating rate preference shares series E by private placement in the second quarter. Retained earnings reinvested in our operations remain the most important source of capital to

maintain a strong base to support our rapid deposit growth. After dividends retained earnings increased by \$18 million to \$79 million.

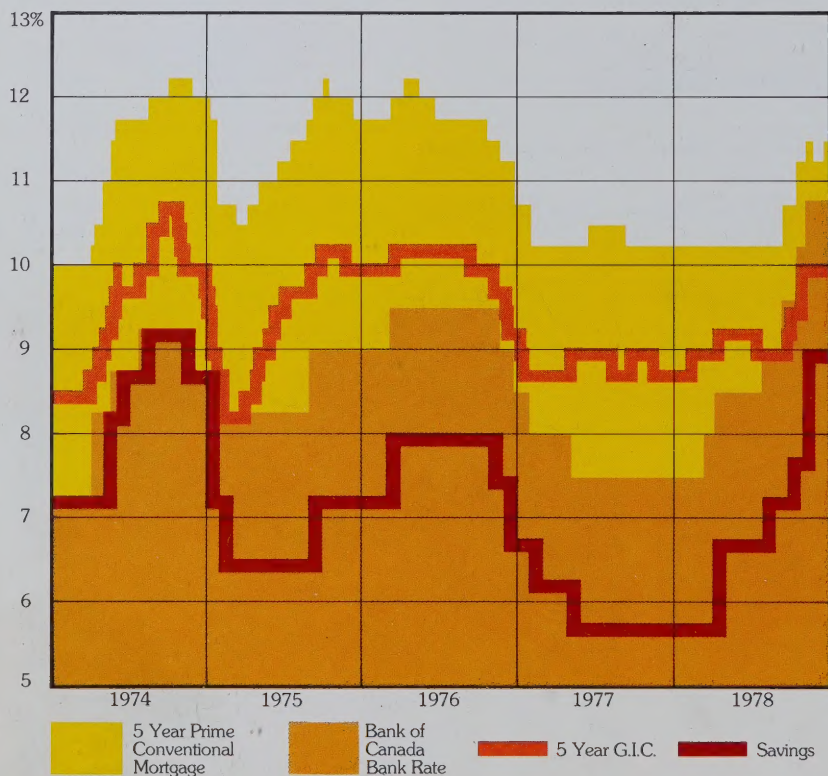
FINANCE

Corporate Investments – For the second year investment strategies concentrated on acquisition of floating rate preference shares and to a lesser extent, income debentures. The tax-free dividends and interest provide a relatively attractive yield, but of greater importance is sensitivity of these securities to interest rate changes. Successive bank rate increases led interest rates steadily upwards during the last three quarters of 1978. Floating rate securities in the portfolio offset, to some degree, the narrowing spread between investment yields and cost of funds.

Growth in money market operations continued with cashable term deposits amounting to \$307 million at the end of 1978. During the latter part of the year we commenced issuance of bearer discount certificates of deposit to investment dealers and other depositors as a means of expanding the product range of money market investments.

Trust Investments – 1978 represented a year of uncertainty in the Canadian economic environment - slow growth, a declining dollar, spiralling government deficits, higher inflation and unemployment rates and higher interest rates forced up by Bank of Canada action to protect the dollar.

In view of these increasingly apparent economic difficulties, cash reserve positions in investment portfolios were accumulated in anticipation of a retrenchment in prices which would produce more attractive values as the year progressed. Concurrently, the average term of bond portfolios was reduced by a combination of selling long bonds for cash and redeploying a portion of the proceeds in shorter term instruments. Modest commitments to equities were undertaken in the latter part of 1978 as prices retreated to levels which represented sound fundamental value. Redeployment of funds to the long term bond market also began late in the year in the belief that interest rates would decline from their cyclical peaks during the course of 1979.



In the highly competitive environment for investment management of corporate and institutional pension funds it was gratifying to note continued high level of account retention. In addition, a significant number of new funds were added which contributed substantially to growth of fiduciary assets managed by the investment division.

SAVINGS SERVICES

In 1978 total deposits increased \$720 million comprised of \$495 million in term deposits and \$225 million in demand deposits payable after notice.

We added 15 new financial services branches in 1978 to increase our distribution system to 150. One branch was merged with a nearby branch. Our computerized on-line savings system now serves 116 branches and all branches will be on-line by the end of 1979. In 1978, we commenced replacement of our existing on-line savings network with a more advanced computerized system. To date 80 branches have been converted to the new system.

Transaction activity continues to increase with over 27 million items processed in 1978, an increase of 24% over 1977. Increased volumes reflect customer acceptance of our "8 to 8, six days straight", extended hours service which is now available at 58 branches, compared to 39 branches in 1977.

Two new services were added in 1978 to our term deposit line - cashable investment certificates and bearer discount certificates of deposit. Initial customer acceptance of these new services has been most encouraging.

Deposits to our Registered Retirement Savings Plan were \$171 million and 28,400 new accounts were opened in 1978. The Plan now has \$872 million in assets and 132,000 participants.

Two new services were added in late 1978 to our retirement savings line - fixed term annuities and registered retirement investment funds. These new services resulted from long awaited changes in the Income Tax Act.

In 1978, deposits to our Registered Home Ownership Savings Plan totalled \$17 million bringing the collective savings of 23,000 participants to \$59 million.

Branches and Premises - Fifteen financial services branches were opened in 1978 - Richmond Broadmoor in British Columbia; Edmonton Castle Downs, Edmonton Millbourne and Calgary Richmond in Alberta; London Oxford at Platt's Lane, Samia London Road, Guelph Edinburgh, Waterloo Conestoga Mall, Cambridge South, Mississauga Meadowvale, Toronto Aragon, Orangeville, Hamilton Wentworth,

Burlington Appleby and Ottawa Westgate in Ontario. The Hamilton/Niagara Regional Office was relocated from St. Catharines to Hamilton Main; Nanaimo branch was relocated in a new mall; Vancouver Chinatown and St. Catharines Grantham Plaza branches were relocated to other premises.

Real estate offices were relocated in new financial services branches in Ottawa and Samia while Toronto Willowdale, Guelph and Stratford offices were relocated to other premises. A satellite office was opened in Vancouver Chinatown.

Major renovations took place at Vancouver Oakridge, Windsor Devonshire Mall, Toronto Richview and Kirkland Lake. Vancouver Park Royal was enlarged and renovated to accommodate growth in business and London Hutton at Sherwood underwent a major exterior renovation.

Vacant land was purchased in Wilton Grove Industrial Park, London for construction of a new building to be erected in 1979 to house our printing and stationery department. The sites of our Kirkland Lake and Milton branches were purchased along with the Waterloo Lincoln Plaza Shopping Centre that houses our branch in that area. A non-branch property in Kitchener was sold as well as a former real estate office in Windsor.

In a consortium with other lenders, Canada Trust provided Toronto College Street Centre Limited with the long-term financing required to do the renovation and construction around the old Eaton's College Street store in Toronto, Ontario.

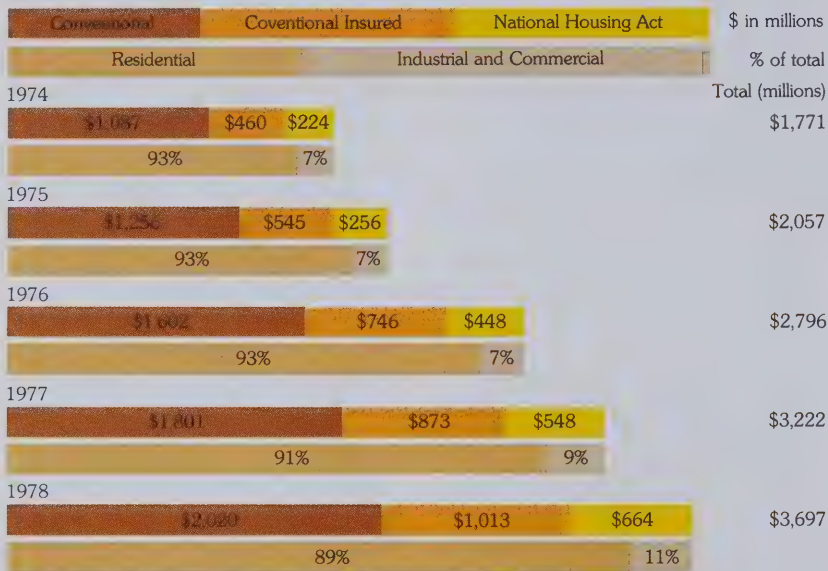
RoyNat funds, some of which are provided by Canada Trust, play a major role in financing small - to medium-sized businesses such as O'Neil Fisheries in Digby, Nova Scotia.



Ten new financial services branches are at present committed for opening in 1979 - Langley and Surrey Guildford in British Columbia; Calgary 17th, Calgary Memorial Square and Edmonton St. Albert in Alberta; Windsor Tecumseh at Annie, Kitchener

Country Hills, Hamilton Upper Ottawa, Burlington Heights and Toronto Don Mills in Ontario. In addition, relocations are planned for the Prairie Regional office in Calgary, Calgary Main, Dundas, Chatham Main and Cornwall branches.

Mortgage Loans



Personal, Pension and Pooled Trust Funds



LOANS AND REAL ESTATE SERVICES

Mortgage Services – High builder inventories and lack of consumer confidence together with overall economic uncertainty dampened demand for mortgage loans. Coupled with an abundant supply of funds the result was a highly competitive market throughout the year.

Market acceptance for selectable one through five year term mortgages continued with 28% of new loans and 75% of renewals being placed in terms shorter than five years. This compares with 18% and 50% respectively in 1977. In August, in response to market demand and competition, we introduced an open mortgage loan which can be prepaid without penalty at any time during the term. These mortgages are offered at an interest rate slightly above the regular mortgage rate.

We continue to expand into new markets having opened mortgage offices in Thunder Bay and Kamloops. The Owen Sound mortgage office opened in late 1977 continued to show good progress.

Despite market conditions, mortgage applications approved in 1978 totalled \$1,036 million including \$105 million for pension and other trust clients. This surpassed the \$966 million total including \$85 million for pension and other trust clients in 1977. During 1978, 45% of our mortgage dollars went into the existing real estate market compared to 36% in 1977. We continued our expansion into the industrial and commercial mortgage market with 1978 approvals totalling \$209 million compared to \$104 million in 1977.

Total mortgages administered now exceed \$4.1 billion in over 110,000 accounts. Of this \$3.7 billion was in the corporate portfolio, an increase of \$475 million or 15% during the year. Payment arrears remained within acceptable parameters, averaging 0.4% of our accounts in arrears ninety days or more the same as 1977.

During 1978, \$16.2 million in 387 properties were acquired in settlement of loans. Disposals during the year totalled \$12.0 million in 305 properties for a net profit of \$10,000 compared to a net loss of \$826,000 in 1977.

At year-end real estate acquired in settlement of loans totalled \$8.0 million in 185 properties compared to \$3.8 million in 103 properties in 1977. Of the amount outstanding at year-end 1978, \$7.0 million is awaiting claim settlements from Central Mortgage and Housing Corporation or private mortgage insurers. The remaining \$1.0 million is made up of 23 properties which are being actively marketed. Loss experience has been well within acceptable levels and is expected to remain so during 1979, despite unsettled economic conditions.

Loans Services – Consumer loan demand was generally moderate during most of 1978, however, we increased market share in the latter months in response to major marketing campaigns.

During 1978, \$270 million representing 58,000 loans were approved compared to \$172 million and 45,000 loans accepted in 1977. This year's volume resulted in a net portfolio increase of \$99 million and 16,000 accounts. The portfolio now totals \$267 million and 63,000 accounts. Of the total dollar volume 47% is rate sensitive compared to 54% last year.

The arrears ratio represented 0.91% of the total loans compared to 1.02% as of December 31, 1977. Delinquency has shown a steady decline despite uncertain economic conditions and is well below the traditional industry

average of 3%. Losses in 1978 were \$221,000 or 0.11% of the portfolio compared with \$148,000 and 0.13% in the previous year. These statistics describe losses net of recoveries.

Credit Card Services – In November, arrangements were completed to gain entry into the credit card business and by the third quarter 1979 a Canada Trust Master Charge card will be offered to the public. A division is being organized to manage all credit functions, systems processing and customer service. It will be a centralized operation based in London.

Real Estate Investments – During the year all company owned land and buildings were transferred into Truscan Realty Limited, a wholly owned subsidiary. Efforts to acquire further attractive investments during the year met with moderate success. Real estate investments in Truscan totalled \$8.0 million as at December 31, 1978 compared to \$6.0 million at the end of 1977. The intention is to move cautiously into this area with the objective of acquiring a good mix of investment properties across Canada.

Real Estate Services – Sales activity showed satisfactory growth during a year of difficult and uncertain market conditions. The buyers' market, which commenced in 1976, continued and we saw little change throughout 1978. Purchasers generally appear to have become use buyers as expectations of

quick and certain profit from housing, except in Alberta, have largely evaporated. In this environment prices continued to stabilize and overall buyer and seller expectations were more realistic. Gross commissions earned totalled \$16.9 million, an increase of 7% over 1977, with the bulk of revenue flowing from Ontario and Prairie Regions. Consolidation continued with six offices being closed and five relocated to improve market coverage. We now offer real estate services from 53 locations of which 29 are separate from financial services branch premises. An active program to upgrade our sales force was ongoing throughout the year. The sales force at year-end was 531, down from 594 a year earlier.

Ongoing expense control is critical to the success of any real estate sales operation. During 1978 all fixed and controllable expenses were held within budget. After all expenses, our operational profit was \$343,000 pretax, a major improvement from the \$229,000 loss reported last year.

TRUST AND CORPORATE SERVICES

Personal Trust Services – To strengthen our individual trust operations and improve client service, two trust departments were consolidated into larger units during 1978. These consolidations have resulted in additional on-site expertise and

With other major investors, Canada Trust provided equity financing to Dominion Foundries and Steel, Limited for expansion of their No. 2 Melt Shop in Hamilton, Ontario.



Canada Trust was one of a group of investors who provided Inco Limited with equity financing used to reduce short-term borrowing and improve their cash position.



improved cost control in the 13 remaining departments.

Our continuing commitment to leadership in the personal trust field is evidenced by a major study on improvements to the personal trust accounting system, scheduled for completion in 1979.

In our financial planning area we are concentrating efforts in those geographic areas of the country which will permit us to penetrate the trust market and increase client service without increasing related costs. We intend to expand the service and advisory aspect of this function to satisfy client demands for total financial planning.

Pension Trust Services – Pension assets under administration recorded a very favourable 44% increase in 1978, and now amount to \$2.6 billion compared to \$1.8 billion a year earlier. In part, the strong growth reflects the emphasis placed on account retention through continued client communications, quality investment management, and sound administrative services. Our marketing efforts contributed significantly to this growth, particularly in appointments related to master trust accounts. Our largest appointment in this area was \$120 million. This type of trust offers a number of administrative advantages to larger organizations, by permitting them to consolidate all pension assets in a single trust instead

of operating separate trusts for their various pension plans.

Revenue for the year of \$4.7 million was 15% higher than the \$4.1 million collected in 1977. To a large extent, growth in assets is not reflected in fees until the following year. Estimated annual fees from new appointments in 1978 were substantially higher than in any previous year, and provide a solid base for continued revenue growth in 1979.

Corporate Trust Services – Heavy trading on stock exchanges resulted in a 41% increase in our volume of share certificates issued and was a major factor in higher revenue from our stock transfer operations. Fees from bond trusteeships and miscellaneous services were also above 1977 levels.

Several national corporations were added to our clientele during the year as a result of appointments in sizeable new security offerings. We were appointed stock transfer agent for an issue of \$189 million convertible preferred, the largest issue of its kind ever placed in Canadian markets. We were also appointed trustee for a debt issue of \$125 million, the largest such appointment in our Company's history. The substantial amounts of capital required to explore and develop oil and gas reserves have contributed materially to growth of our business.

Computer Services – Product enhancement continued in 1978 with

addition of a lease management system and a terminal based enquiry system.

Both were successful in attracting clients. Development commenced on a mortgage system capable of supporting multiple companies, reflecting our view that such systems require lower resource support than many single systems, giving substantial cost benefits.

Revenue was 17% higher this year with fees of \$469,000 compared to \$401,000 in 1977. The current economic climate confers a beneficial effect on computer services, as corporations seek automated solutions to problems of productivity and expense control. We intend to exploit further these opportunities in 1979 with production of marketing material and a series of product seminars.

DATA RESOURCES

We installed an IBM 3033 computer as prime processor in our computer centre in May. Available capacity and use of sophisticated technology which this processor provides enables us to move forward in providing new and innovative services to customers.

The end of 1979 will see all branches using the IBM 3600 family of terminals to provide the advantages of on-line savings to customers. Our on-line network structure will provide the opportunity for all customers to transact their savings business at any branch across Canada just as though it were their home branch.

Canada Trust was one of a group of investors who provided Stelco Limited with the equity financing needed to build its new steelmaking facility near Port Dover, Ontario.



Air Canada secured sale-leaseback financing, provided in part by Canada Trust, for this L-1011-1 Tristar Jet.



As conversion to this new on-line savings system takes place, development work in the use of terminals in other systems will be underway. We expect to introduce terminal data entry into other systems in 1980. This will allow more effective customer service for many other products.

MARKETING SERVICES

At Canada Trust we do not just advertise. We firmly believe well conceived and integrated marketing planning and strategies, supported by creative and aggressive execution, are imperative to maintaining and continuing development of services. Banks are our major competition in most cases and we must market in a way that overcomes their much larger distribution system and budgets. In 1978 we continued to improve effective use of our time and money by focusing on short-term payoff, concentration of dollars relative to market opportunities, and research to help set our future course.

1978 accomplishments clearly indicate success in the marketplace - a record number of new customers were attracted to Canada Trust as a result of major merchandising campaigns for new branches, RSP's, RHOSP's, loans, savings and chequing, "8 to 8" and Canada Savings Bonds. Several significant sales support projects have enhanced our marketing of mortgages,

corporate payroll deposits, blended payment certificates, real estate, estate planning and pension trust services.

PLANNING

A formalized plan of action for 1979 has been developed for each product line. The plans are an accumulation of market strategies, systems resource allocations and personnel resource development focused toward maintaining our high growth in corporate assets and improving net earnings.

PERSONNEL SERVICES

The Company's compensation program was subject to Anti-Inflation Board regulations until December 31, 1978. A post A.I.B. salary administration program developed and communicated in 1978 is designed to correct inequities which resulted from the three-year regulatory period, and to provide managerial flexibility in pursuing our pay for performance philosophy.

A comprehensive survey of benefit programs covering 38 Canadian financial, governmental and industrial organizations was completed. Results validated the design of our present benefit package and provided valuable insights for realistic planning of future benefit programs.

Training continued to emphasize practical skills and acquisition of

product knowledge resulting in six major training programs being developed and implemented in 1978. Particular effort was dedicated to development of an instructional system for branch personnel to facilitate effective conversion nationally to the Canadian On-Line Finance Industry System.

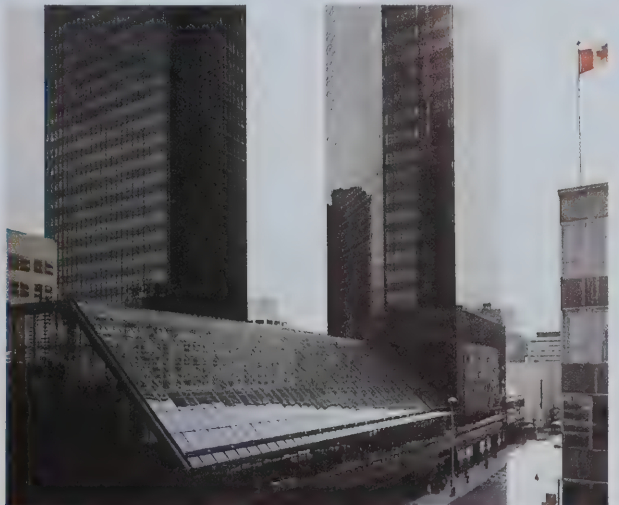
Employees contributed specialized skills to each of the curriculum committees established by the Trust Companies Institute. These committees developed accreditation programs in eight fields of knowledge providing upgrading and recognition of professional knowledge within the industry.

Several significant cost savings programs were initiated to respond to economic pressures on profit. A detailed study of Head Office organization involving an external consultant and five co-consultants from senior management resulted in significant actual and committed cost savings through a reduction of levels of management, increasing spans of management, consolidation of similar work in specialized areas to avoid fragmentation and generally defining and correcting organizational deficiencies. A program to restrict additions to staff was implemented which will permit future branch expansion and staffing of new services but will maintain cost controls in existing operations.

Sale-leaseback financing, provided in part by Canada Trust, helped the B.C. Ferry Corporation acquire this car-passenger ferry linking Vancouver Island and the Mainland.



With other lenders, Canada Trust provided the Oxford Development Group with the long-term financing used to construct the Toronto-Dominion Square in Calgary, Alberta.



ORGANIZATION

In anticipation of and response to rapid and dramatic changes in services, facilities, markets and operating environment we are striving to provide job enrichment and advancement opportunities for increasing numbers of employees. Senior management appointments in 1978 including planned job rotations were:

Vice-Presidents

Duncan A. Baillie - Treasurer

P. Albert Heiland - Trust and Corporate Services

E. Donald L. Miller - Corporate Affairs

Charles C. Parsons - Data Resources

Frank W. Pratt - Marketing Services

Robert E. Redgwell - Audit Services

John D. Richardson - Comptroller and Tax Services

Assistant Vice-Presidents

John L. Doran - Demand Savings

D. Eric MacMillan - Data Processing Services

James T. McDougall - Personal Trust Services

Sean J. McNamara - Credit Card Services

John F. Schucht - Real Estate Investments

W. Lindsay Somerville - Midwestern Ontario Region

Leo W. Tiberio - Loans Services

William C. Thornhill - Term and R.S.P. Savings Services

Douglas E. Wannamaker - Pension Trust Services

THE YEAR AHEAD

1979 promises to be a year of exceptional challenge for the Company and its personnel at all levels. We will operate with high interest rates, unacceptably high but moderating inflation, slow economic growth, significant unemployment, lagging investment, political uncertainty and a weak dollar. These national ailments, brought about in large measure by well

intentioned but ill advised excessive government expenditures and consequent huge deficits, are expected to show modest improvement as some degree of fiscal orthodoxy is established.

Continuing vigorous competition, which is both healthy and stimulating, will most certainly prevail. Earnings will continue under severe pressure until the peak in interest rates is passed - hopefully in the second half of 1979.

Notwithstanding, our people have fully demonstrated resourcefulness, ingenuity, resiliency and commitment in the past and will persist in these attributes as we enter difficult and challenging circumstances in 1979. Their abilities stand us in good stead to meet the legitimate needs and aspirations of customers, shareholders and the communities in which we operate.

London, Ontario, January 23, 1979

Canada Trust sale-leaseback financing assisted the Transit Authority of Edmonton, Alberta, acquire a fleet of 73 diesel buses.



Equity financing, in which Canada Trust participated, was used by Cominco Ltd. for general corporate growth and reduction of short-term borrowing. Photo: Smelting operation at Trail, B.C.



CANADA TRUSTCO MORTGAGE COMPANY
CONSOLIDATED STATEMENT OF EARNINGS
year ended December 31

	1978	1977	% Increase (Decrease)
Income			
Investment			
Cashable term deposits	\$ 18,384,000	\$ 17,927,000	3
Short term corporate notes	24,361,000	19,550,000	25
Bonds and debentures	21,584,000	15,074,000	43
Stocks	17,607,000	10,823,000	63
Mortgages	355,951,000	312,693,000	14
Consumer and personal loans	18,863,000	12,663,000	49
Fully secured loans	7,585,000	5,953,000	27
Equipment leases	1,990,000	1,908,000	4
	<u>466,325,000</u>	<u>396,591,000</u>	18
Fees and commissions			
Personal trust	10,397,000	9,449,000	10
Pension and pooled trust funds	6,527,000	5,556,000	17
Corporate trust	2,321,000	2,005,000	16
Real estate sales	16,887,000	15,760,000	7
	<u>36,132,000</u>	<u>32,770,000</u>	10
Other note 8	8,770,000	7,613,000	15
	<u>511,227,000</u>	<u>436,974,000</u>	17
Expense			
Interest on deposits			
Chequable	9,737,000	6,854,000	42
Savings	72,924,000	54,963,000	33
Cashable term	23,983,000	16,132,000	49
Term	266,039,000	229,363,000	16
	<u>372,683,000</u>	<u>307,312,000</u>	21
Salaries	41,884,000	35,643,000	18
Pension and other employee benefits note 13	3,603,000	4,778,000	(25)
Real estate commissions	11,662,000	10,852,000	7
Net occupancy and equipment note 6	15,444,000	13,108,000	18
Advertising	3,802,000	3,898,000	(2)
Other note 9	18,547,000	15,233,000	22
	<u>467,625,000</u>	<u>390,824,000</u>	20
Earnings before income taxes	<u>43,602,000</u>	<u>46,150,000</u>	(6)
Income taxes note 7			
Current	7,372,000	10,576,000	(30)
Future	4,346,000	5,588,000	(22)
	<u>11,718,000</u>	<u>16,164,000</u>	(28)
Net earnings	<u>\$ 31,884,000</u>	<u>\$ 29,986,000</u>	6
Attributed to			
Preference shares non-convertible	\$ 2,487,000	\$ 1,480,000	68
Preference shares convertible	2,262,000	2,262,000	
Common shares	27,135,000	26,244,000	3
	<u>\$ 31,884,000</u>	<u>\$ 29,986,000</u>	6
Net earnings per common share - basic	\$ 3.88	\$ 3.76	3
Net earnings per common share - fully diluted	\$ 3.61	\$ 3.50	3

CONSOLIDATED STATEMENT OF CONDITION

December 31

	1978	1977	% Increase (Decrease)
ASSETS			
Investments			
Cash	\$ 55,614,000	\$ 45,230,000	23
Cashable term deposits	186,694,000	186,617,000	
Short term corporate notes	190,177,000	241,067,000	(21)
	<u>432,485,000</u>	<u>472,914,000</u>	(9)
Securities <i>note 3</i>			
Bonds and debentures			
Canada	176,202,000	143,211,000	23
Provincial	11,094,000	12,764,000	(13)
Corporate	122,451,000	98,603,000	24
	<u>309,747,000</u>	<u>254,578,000</u>	22
Stocks			
Preference	289,482,000	169,143,000	71
Common	55,022,000	36,309,000	52
	<u>344,504,000</u>	<u>205,452,000</u>	68
	<u>654,251,000</u>	<u>460,030,000</u>	42
Loans			
Mortgages			
Conventional	2,020,504,000	1,801,133,000	12
Conventional insured	1,012,939,000	872,536,000	16
National Housing Act	663,716,000	548,148,000	21
	<u>3,697,159,000</u>	<u>3,221,817,000</u>	15
Consumer and personal	209,289,000	117,647,000	78
Fully secured <i>note 12</i>	73,955,000	53,939,000	37
	<u>3,980,403,000</u>	<u>3,393,403,000</u>	17
Real estate acquired in settlement of loans	8,024,000	3,776,000	113
Real estate properties <i>note 5</i>	8,312,000	6,388,000	30
Receivables under equipment leases	31,507,000	28,837,000	9
Total investments	<u>5,114,982,000</u>	<u>4,365,348,000</u>	17
Income taxes recoverable	34,000		
Land, premises and equipment <i>note 6</i>	<u>35,814,000</u>	<u>34,090,000</u>	5
	<u>\$5,150,830,000</u>	<u>\$4,399,438,000</u>	17

Approved on behalf of the Board

ARTHUR H. MINGAY, Director

A.E. BARRON, Director

	1978	1977	% Increase (Decrease)
LIABILITIES			
Deposits <i>note 11</i>			
Chequable	\$ 319,522,000	\$ 308,244,000	4
Savings	1,105,761,000	942,843,000	17
Cashable term	306,829,000	255,927,000	20
Term	<u>3,151,815,000</u>	<u>2,656,467,000</u>	19
	<u>4,883,927,000</u>	<u>4,163,481,000</u>	17
Current income taxes		6,025,000	(100)
Mortgages	6,401,000	6,477,000	(1)
Dividends	<u>3,480,000</u>	<u>3,001,000</u>	16
	<u>9,881,000</u>	<u>15,503,000</u>	(36)
Future income taxes <i>note 7</i>	<u>35,276,000</u>	<u>31,215,000</u>	13
	<u>4,929,084,000</u>	<u>4,210,199,000</u>	17
SHAREHOLDERS' EQUITY			
Capital stock <i>note 2</i>			
Preference shares	77,369,000	62,370,000	24
Common shares	<u>13,978,000</u>	<u>13,978,000</u>	
	91,347,000	76,348,000	20
Contributed surplus	51,681,000	51,677,000	
Retained earnings	<u>78,718,000</u>	<u>61,214,000</u>	29
	<u>221,746,000</u>	<u>189,239,000</u>	17
	<u>\$5,150,830,000</u>	<u>\$4,399,438,000</u>	17

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
year ended December 31

	1978	1977
Balance at beginning of year	\$51,677,000	\$51,676,000
Premium on issue of shares	<u>4,000</u>	<u>1,000</u>
Balance at end of year	<u><u>\$51,681,000</u></u>	<u><u>\$51,677,000</u></u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
year ended December 31

	1978	1977
Balance at beginning of year	\$61,214,000	\$44,165,000
Net earnings	<u>31,884,000</u>	<u>29,986,000</u>
	<u>93,098,000</u>	<u>74,151,000</u>
Dividends on		
Preference shares series A	546,000	559,000
Preference shares series B	2,175,000	2,175,000
Preference shares series C	87,000	87,000
Preference shares series D	1,417,000	922,000
Preference shares series E	524,000	
Common shares Class A	9,289,000	8,500,000
Common shares Class B	<u>286,000</u>	<u>573,000</u>
	<u>14,324,000</u>	<u>12,816,000</u>
Tax paid on 1971 undistributed income		22,000
Expenses, net of income taxes, incurred on issue of shares	<u>56,000</u>	<u>99,000</u>
	<u>14,380,000</u>	<u>12,937,000</u>
Balance at end of year	<u><u>\$78,718,000</u></u>	<u><u>\$61,214,000</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL CONDITION
year ended December 31

	1978	1977
CASH DERIVED FROM		
Increase in deposits		
Chequable and savings	\$174,196,000	\$190,619,000
Cashable term	50,902,000	71,938,000
Term	495,348,000	377,176,000
	<u>720,446,000</u>	<u>639,733,000</u>
Operations		
Net earnings	31,884,000	29,986,000
Future income taxes	4,346,000	5,588,000
Depreciation	3,376,000	2,974,000
Provision for investment losses	2,807,000	2,300,000
	<u>42,413,000</u>	<u>40,848,000</u>
Other		
Issue of preference shares	15,000,000	25,000,000
	<u>777,859,000</u>	<u>705,581,000</u>
CASH APPLIED TO		
Increase (decrease) in investments		
Cashable term deposits	77,000	2,777,000
Short term corporate notes	(50,890,000)	108,732,000
Bonds and debentures	55,355,000	54,984,000
Stocks	139,547,000	95,438,000
Mortgages	478,380,000	426,999,000
Consumer and personal loans	91,705,000	33,165,000
Fully secured loans	20,016,000	(37,910,000)
Real estate properties	2,043,000	1,600,000
Receivables under equipment leases	2,670,000	4,260,000
	<u>738,903,000</u>	<u>690,045,000</u>
Dividends paid on		
Preference shares	4,480,000	3,383,000
Common shares including tax paid for Class B dividends	9,365,000	8,784,000
	<u>13,845,000</u>	<u>12,167,000</u>
Other		
Purchase for cancellation of preference shares series A		259,000
Additions to land, premises and equipment	4,981,000	3,926,000
Expenses, net of income taxes, incurred on issue of shares	56,000	99,000
Other, including gains and losses on investments, net of income taxes	9,690,000	(2,023,000)
	<u>14,727,000</u>	<u>2,261,000</u>
	<u>767,475,000</u>	<u>704,473,000</u>
INCREASE IN CASH	<u>\$ 10,384,000</u>	<u>\$ 1,108,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

year ended December 31, 1978

1. Summary of Significant Accounting Policies

(a) Consolidation

The financial statements include the accounts of Canada Trustco Mortgage Company and its subsidiary companies, The Canada Trust Company and Truscan Realty Limited.

(b) Investments

Investments, reduced by an allowance for investment losses where applicable, (see note 4), and investment income are stated as follows:

(i) Securities

Bonds and debentures are stated at amortized cost plus accrued interest and stocks are stated at cost plus accrued dividends.

(ii) Loans

Mortgages are stated at cost, which includes amounts advanced, interest capitalized and accrued, taxes and other charges, less repayments and unamortized prepayments of mortgage interest. Interest income is accrued on a daily basis, except for any prepayments of mortgage interest which are amortized over the remaining term of the loan using the sum-of-digits method.

Consumer, personal and fully secured loans are stated at cost which includes amounts advanced and accrued interest on a daily basis, less repayments.

(iii) Real estate acquired in settlement of loans is stated at a value which does not exceed market.

(iv) Real estate properties held for development and resale are stated at the lower of cost or estimated net realizable value. Properties held as investments are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis at an annual rate of 2½% on buildings.

(v) Receivables under equipment leases are stated at gross rentals receivable net of unearned income. Any gains resulting from the residual values of leased equipment are reflected in earnings only when realized.

An allowance for investment losses is deducted from the applicable investment on the consolidated statement of condition. This allowance recognizes the historical trend of investment losses and existing economic conditions. Provision for investment losses is included in other expense and is based on both the historical five year (including the current year) moving average ratio of losses to average investments and other factors which in management's judgement deserve recognition. Net gains or losses realized on disposal of investments are recorded in this allowance.

(c) Land, Premises and Equipment

Land is stated at cost and premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of each asset at annual rates of 5% on buildings and 10% to 33% on leasehold improvements and equipment.

(d) Fees and Commissions

Fees and commissions are recorded as income when received.

(e) Pension Plan

A contributory pension plan is available to substantially all employees after six months continuous service. Unfunded liabilities including experience deficiencies as determined by actuarial valuation, are funded by regular annual and special periodic payments which are charged to operations as paid. The cost of funding current service pension benefits is expensed as incurred.

(f) Net Earnings per Common Share

Net earnings per common share-basic are calculated using the weighted average number of common shares outstanding, and the net earnings attributable to common shares.

Net earnings per common share-fully diluted are calculated on the assumption that all preference shares series B and C outstanding at the end of the year were converted to common shares at the beginning of the year and the amount of net earnings attributable to these preference shares is included in the amount available to common shares. Warrants, if exercised, would have no material effect on earnings per common share - fully diluted.

(g) Comparative Figures

The comparative figures for 1977 have been reclassified to conform with the financial statement presentation adopted for 1978.

2. Capital Stock

(a) Authorized, issued and fully paid

	Number of Shares		Amount (in thousands of dollars)	
	1978	1977	1978	1977
Cumulative redeemable preference shares, of \$20 par value each, issuable in series				
Authorized	4,886,999	4,887,059		
Issued and fully paid				
Series A - 8¼%	312,059	312,059	\$ 6,241	\$ 6,241
Series B - 7¼% convertible	1,500,000	1,500,000	30,000	30,000
Series C - 7¼% convertible	56,377	56,437	1,128	1,129
Series D - floating % retractable	1,250,000	1,250,000	25,000	25,000
Series E - floating % retractable	750,000		15,000	
	<u>3,868,436</u>	<u>3,118,496</u>	<u>\$77,369</u>	<u>\$62,370</u>
Interconvertible common shares of \$2 par value each				
Authorized	20,000,000	20,000,000		
Issued and fully paid				
Class A	6,780,445	6,772,619	\$13,561	\$13,546
Class B	208,526	216,144	417	432
	<u>6,988,971</u>	<u>6,988,763</u>	<u>\$13,978</u>	<u>\$13,978</u>

(b) Terms of issue

(i) Preference shares

Each series of preference shares outstanding is subject to separate terms and conditions respecting redemption, retraction and purchase for cancellation, all of which require the prior consent of the Superintendent of Insurance (Canada). These terms and conditions, including conversion privileges, if any, together with dividend rates are summarized as follows:

Dividends

The dividend rates on series A, B and C are 8¼%, 7¼% and 7¼% respectively. The dividend rate on series D and E is adjusted quarterly and, expressed on a per annum basis, is equal to the sum of (i) one half of the average bank prime rate and (ii) 1.25%.

Redemption

Series A

September 15, 1979 at \$21.40 reducing tri-annually by \$.20 to \$20.40 at September 15, 1994 and thereafter.

Series B

June 1, 1978 at \$21.015 reducing annually by \$.145 to \$20.00 at June 1, 1985 and thereafter.

Series C

December 15, 1979 at \$21.05 reducing annually by \$.15 to \$20.00 at December 15, 1986 and thereafter.

Series D

May 1, 1980 at \$20.60 reducing annually by \$.15 to \$20.00 at May 1, 1984 and thereafter.

Series E

May 1, 1981 and thereafter at \$20.00.

Redemptions are applicable if the average market value of common shares exceeds \$33.75 between May 31, 1978 and June 1, 1980 in the case of series B, and \$31.25 between December 16, 1979 and December 15, 1981 in the case of series C. The total redemption price will include dividends accrued to the date of redemption.

Conversion

Series B

Convertible into common shares at the option of the holder at a conversion price of \$27.00 per common share at any time on or prior to May 31, 1985, or any time prior to ten days before the date specified for redemption of such shares, whichever is earlier.

Series C

Convertible into common shares at the option of the holder at a conversion price of \$25.00 per common share at any time on or prior to December 15, 1981 and thereafter to December 15, 1986 at \$27.50 per common share or any time prior to ten days before the date specified for redemption of such shares, whichever is earlier.

Retraction

Series D

Retractable at the option of the holder at \$20.00 on April 1, 1987.

Series E

Retractable at the option of the holder at \$20.00 on April 1, 1988.

Purchase for cancellation

Series A

The company, annually to 1984, is obligated to offer to purchase for cancellation at a price equal to par value plus accrued dividends, the lesser of 50,000 shares or the number of shares which can be purchased by 10% of the consolidated net earnings of the prior year. Thereafter this obligation is reduced to the lesser of 5% of the number of shares outstanding at the beginning of the year or the number of shares which can be purchased by 10% of the consolidated net earnings of the prior year.

Series B

A purchase fund shall be established in 1981 and subsequent years. The amount thereof will not exceed \$900,000 in 1981 and \$1,800,000 in subsequent years, which funds shall be applied by the company to purchase shares for cancellation in the open market if available, at a price not exceeding the par value thereof plus the costs of purchase.

Series C

A purchase fund shall be established in 1982 and subsequent years. The amount thereof will not exceed \$34,000 in 1982 and \$68,000 in subsequent years, which funds shall be applied by the company to purchase shares for cancellation in the open market if available, at a price not exceeding the par value thereof plus the costs of purchase.

Series D

The company, annually during the years 1978 to 1987, may offer to purchase shares for cancellation in the market or by invitation for tenders at a price not exceeding \$20.60 per share prior to May 1, 1980 or at the redemption price thereafter, together with accrued dividends.

Series E

The company may at any time or times, purchase for cancellation in the market or by invitation for tenders at the lowest price at which shares are available in the opinion of the directors or the duly authorized officer or officers of the company.

(ii) Common shares

As Class A and Class B common shares are freely convertible one into the other at any time at the option of the holder, the maximum number of common shares that may be issued is 20,000,000 shares, of which 1,196,288 shares have been reserved for conversion rights attached to preference shares series B and C and for warrants outstanding to purchase common shares. Class A and Class B common shares rank equally in all respects, except that dividends paid on Class A common shares are taxable dividends for purposes of the Income Tax Act, whereas income tax is deferred on Class B dividends. During 1977 amendments to the Income Tax Act were enacted by Parliament with the result that the company will no longer be permitted to pay tax deferred dividends after December 31, 1978, at which time the distinction between Class A and B shares will disappear. The amendments make it possible for the company to pay dividends up to December 31, 1978, on the Class B shares from 1971 capital surplus on hand without the requirement to pay the special 15% tax on 1971 undistributed income on hand. Effective with the dividend paid July 1, 1977, the company commenced paying Class B dividends from 1971 capital surplus on hand, equal in amount to the Class A dividends, rather than at the rate of 85% of the Class A dividends.

(c) Warrants

At December 31, 1978, warrants were outstanding to purchase 40,075 Class A convertible common shares exercisable at \$21.26 per share until December 15, 1983 (1977 - 40,235 warrants).

(d) Changes in capitalization

In May 1978, the company issued 750,000 floating rate preference shares series E for cash of \$15,000,000.

During the year 60 preference shares series C were converted into 48 Class A common shares at \$25.00 per share.

During the year 160 common share purchase warrants were exercised to purchase 160 Class A common shares at \$19.00 per share (1977 - 100 shares).

3. Securities

	1978		1977	
	Stated value	Market value	Stated value	Market value
	(in thousands of dollars)			
Bonds and debentures				
Canada	\$176,202	\$170,143	\$143,211	\$144,140
Provincial	11,094	9,500	12,764	11,230
Corporate	122,451	120,113	98,603	99,228
	<u>309,747</u>	<u>299,756</u>	<u>254,578</u>	<u>254,598</u>
Stocks				
Preference	289,482	291,523	169,143	174,883
Common	55,022	82,120	36,309	48,229
	<u>344,504</u>	<u>373,643</u>	<u>205,452</u>	<u>223,112</u>
	<u>\$654,251</u>	<u>\$673,399</u>	<u>\$460,030</u>	<u>\$477,710</u>

4. Allowance for Investment Losses

	1978	1977
	(in thousands of dollars)	
Balance at beginning of year	\$ 5,094	\$ 3,777
Provision charged to other expense	2,807	2,300
Investment gains (losses)		
Securities, net of income taxes	1,406	(9)
Loans, net of recoveries	(211)	(974)
Balance at end of year	<u>\$ 9,096</u>	<u>\$ 5,094</u>

The allowance for investment losses has been applied to selected investments on the consolidated statement of condition as follows:

	1978	1977
	(in thousands of dollars)	
Corporate bonds and debentures	\$ 499	\$ 313
Preference stocks	1,421	926
Conventional mortgages	5,124	2,086
Consumer and personal loans	1,800	1,737
Real estate acquired in settlement of loans	252	32
	<u>\$ 9,096</u>	<u>\$ 5,094</u>

5. Real Estate Investment Properties

	1978		1977	
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land held for development and resale	\$ 2,837	\$	\$ 2,837	\$ 1,377
Properties held as investments	5,647	172	5,475	5,011
	<u>\$ 8,484</u>	<u>\$ 172</u>	<u>\$ 8,312</u>	<u>\$ 6,388</u>

6. Land, Premises and Equipment

(a) Cost and net depreciated values:

	1978		1977	
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	\$ 6,995	\$	\$ 6,995	\$ 6,606
Buildings	31,064	12,413	18,651	18,973
Leasehold improvements	7,058	2,495	4,563	3,622
Furniture and equipment	14,889	9,436	5,453	4,796
Automobiles	236	84	152	93
	<u>\$60,242</u>	<u>\$24,428</u>	<u>\$35,814</u>	<u>\$34,090</u>

(b) Net occupancy and equipment expense:

	1978	1977
	(in thousands of dollars)	
Occupancy		
Rent	\$ 3,800	\$ 3,190
Maintenance	7,097	6,536
Depreciation	2,277	2,028
	<u>13,174</u>	<u>11,754</u>
Rental income	<u>3,632</u>	<u>3,088</u>
	<u>9,542</u>	<u>8,666</u>
Furniture and equipment		
Rent	4,310	3,130
Maintenance	493	366
Depreciation	1,099	946
	<u>5,902</u>	<u>4,442</u>
	<u>\$15,444</u>	<u>\$13,108</u>

(c) The aggregate minimum rentals payable under premises and equipment leases in effect at December 31, 1978 are as follows for each of the periods shown:

	Premises	Equipment	Total
	(in thousands of dollars)		
1979 - 1983	\$23,583	\$ 4,586	\$28,169
1984 - 1988	18,106		18,106
1989 - 1993	7,634		7,634
thereafter	6,889		6,889

7. Income Taxes

A portion of the company's income is tax-exempt income debenture and dividend income; accordingly income taxes as provided in the consolidated statement of earnings are less than the amount obtained by applying statutory tax rates to earnings before income taxes.

Certain items of income and expense are recognized in time periods different for financial reporting than for income tax purposes. Full provision for income taxes is made in the consolidated statement of earnings using the tax allocation method and income taxes related to the following items are recorded in future income taxes in the consolidated statement of condition.

	1978	1977
	(in thousands of dollars)	
Taxes applicable to:		
Special reserve allowed under Section 33 of the Income Tax Act (Canada)	\$23,400	\$20,823
Allowance for investment losses	(3,863)	(2,593)
Excess of capital cost allowances over amounts provided in the accounts	12,113	10,505
Other items - net	3,626	2,480
	<u>\$35,276</u>	<u>\$31,215</u>

8. Other Income

	1978	1977
	(in thousands of dollars)	
Mortgage services fees	\$ 3,436	\$ 3,813
Service charges on chequing accounts	1,592	1,281
Commissions and other service fees	2,802	1,541
Foreign exchange and miscellaneous	940	978
	<u>\$ 8,770</u>	<u>\$ 7,613</u>

9. Other Expense

	1978	1977
	(in thousands of dollars)	
Stationery, telephone, postage and travelling	\$ 5,384	\$ 4,677
Insurance, commissions and fees	4,170	3,391
Provision for investment losses	2,807	2,300
Provincial taxes on capital	1,333	164
Employee training and development	1,618	1,785
Miscellaneous	3,235	2,916
	<u>\$18,547</u>	<u>\$15,233</u>

10. Mortgage Commitments

Outstanding commitments for future advances on mortgages are \$469,462,000 at December 31, 1978 and were \$334,138,000 at December 31, 1977.

11. Deposits

Consolidated net assets held to secure guaranteed trust deposits of the company are \$2,856,462,000 at December 31, 1978 and were \$2,495,533,000 at December 31, 1977.

Chequable, savings and cashable term deposits are payable after notice.

12. Fully Secured Loans

Advances to estates, trusts and agencies included in fully secured loans amounted to \$8,179,000 at December 31, 1978 and were \$4,923,000 at December 31, 1977.

Call loans to investment dealers amounted to \$6,000,000 at December 31, 1978 and were nil at December 31, 1977.

13. Pension Plan

The latest actuarial valuation as at December 31, 1977 indicated an unfunded liability of \$1,946,000.

This liability is funded by annual charges to operations and by special periodic payments. In 1978 total contributions by the Company were \$1,720,000 (1977 - \$3,025,000) which included a special payment of \$250,000 (1977 - \$1,000,000). These contributions are included in pension and other employee benefits.

On the actuaries' recommendation future annual minimum payments to liquidate the unfunded liability are as follows:

	Annual Payment
	(in thousands of dollars)
1979 - 1988	\$ 220
1989	163
1990	84
1991	56
1992	25

14. Remuneration of Directors and Senior Officers

Senior officers serving as directors do not receive directors' fees. The aggregate direct remuneration, including the cost of all pension benefits, paid or payable to directors and senior officers of the company was as follows:

	1978		1977	
	Number	Amount	Number	Amount
Directors	46	\$ 164,000	49	\$ 155,000
Senior officers	26	1,548,000	23	1,310,000
	<u>72</u>	<u>\$1,712,000</u>	<u>72</u>	<u>\$1,465,000</u>

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CANADA TRUSTCO MORTGAGE COMPANY

We have examined the consolidated statement of condition of Canada Trustco Mortgage Company as at December 31, 1978 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial condition for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial condition of the company as at December 31, 1978 and the results of its operations and changes in its financial condition for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 23, 1979
London, Canada

Thorne Riddell & Co.
Chartered Accountants

QUARTERLY ANALYSIS OF NET EARNINGS

(in thousands of dollars except interest rate spread and earnings per share)

Quarter	Interest rate spread-taxable equivalent basis	Investment income less interest on deposits	Fees and commissions	Non interest expenses	Net earnings	Net earnings per common share - fully diluted
1st	1.63%	\$ 9,004	\$ 5,863	\$10,029	\$ 2,891	\$.52
2nd	1.54	8,531	5,183	10,855	2,035	.37
3rd	1.35	7,737	5,429	10,702	1,996	.36
4th	1.40	8,036	4,782	10,973	2,107	.36
1974	1.47	33,308	21,257	42,559	9,029	1.61
1st	1.48	8,762	6,121	11,731	2,391	.40
2nd	1.93	11,851	6,179	12,914	3,680	.57
3rd	1.76	11,885	6,971	13,436	3,750	.55
4th	1.90	12,481	6,733	14,565	4,258	.62
1975	1.77	44,979	26,004	52,646	14,079	2.14
1st	1.74	12,854	7,451	15,030	4,112	.60
2nd	1.85	13,330	6,344	15,379	4,103	.59
3rd	1.68	14,120	7,377	16,494	4,197	.57
4th	1.93	16,075	6,695	17,107	5,291	.71
1976	1.80	56,379	27,867	64,010	17,703	2.47
1st	1.89	19,007	8,378	19,012	6,299	.76
2nd	2.09	21,404	7,926	20,472	7,078	.82
3rd	2.30	24,226	8,686	22,088	8,224	.95
4th	2.24	24,642	7,780	21,940	8,385	.97
1977	2.13	89,279	32,770	83,512	29,986	3.50
1st	2.07	23,932	9,324	22,219	8,165	.95
2nd	2.06	23,942	8,778	23,234	8,228	.94
3rd	1.89	23,808	9,451	24,776	7,653	.85
4th	1.71	21,960	8,579	24,713	7,838	.87
1978	1.93	93,642	36,132	94,942	31,884	3.61

MATURITIES

(in thousands of dollars)

Investments

Maturity dates	Cash and equivalent	Securities (1)	Mortgages (2)	Other loans and investments	December 31, 1978		December 31, 1977	
					Total	%	Total	%
On demand and within one year	\$ 426,746	\$ 78,831	\$ 902,408	\$142,991	\$1,550,976	30.3	\$1,398,912	32.0
1 - 2 years		97,949	720,348	50,181	868,478	17.0	734,189	16.8
2 - 3 years		19,119	700,715	38,190	758,024	14.8	722,543	16.6
3 - 4 years		10,266	668,325	22,015	700,606	13.7	411,588	9.4
4 - 5 years		51,919	536,678	15,450	604,047	11.8	618,940	14.2
after 5 years		276,538	139,614	59,770	475,922	9.3	345,080	7.9
stocks		109,611			109,611	2.2	87,509	2.0
accrued interest	5,739	10,018	29,071	2,490	47,318	.9	46,587	1.1
	<u>\$ 432,485</u>	<u>\$654,251</u>	<u>\$3,697,159</u>	<u>\$331,087</u>	<u>\$5,114,982</u>	<u>100.0</u>	<u>\$4,365,348</u>	<u>100.0</u>

Deposits

Maturity dates	Chequable and savings	Cashable term	Term (2)	December 31, 1978		December 31, 1977	
				Total	%	Total	%
Payable after notice and within one year	\$1,408,231	\$302,626	\$ 650,573	\$2,361,430	48.3	\$2,058,785	49.4
1 - 2 years			491,290	491,290	10.1	406,071	9.8
2 - 3 years			641,743	641,743	13.1	394,278	9.5
3 - 4 years			491,608	491,608	10.1	549,684	13.2
4 - 5 years			521,448	521,448	10.7	464,798	11.2
after 5 years			160,266	160,266	3.3	133,700	3.2
accrued interest	17,052	4,203	194,887	216,142	4.4	156,165	3.7
	<u>\$1,425,283</u>	<u>\$306,829</u>	<u>\$3,151,815</u>	<u>\$4,883,927</u>	<u>100.0</u>	<u>\$4,163,481</u>	<u>100.0</u>

- (1) Securities include various types of bonds, debentures and preference and common stocks, all reflected at stated cost. Preference stocks which have a specific redemption feature at the option of the holder are reflected in the year when the option may first be exercised. Securities maturing over one year include \$206 million (1977 - \$103 million) on which the interest or dividend rate floats either with the prime bank rate or with the interest rate paid on savings accounts.
- (2) Historically, approximately 65% of term deposits are renewed at maturity. Of mortgages not fully paid on maturity, approximately 68% are extended by renewal agreement usually, on the same amortization schedule adjusted for any variation in interest rates.
- (3) The maturities have been arranged to reflect anticipated principal repayments on mortgages, other loans, equipment leases and income averaging contracts in the years they are due.

FIVE YEAR FINANCIAL ANALYSIS

year ended December 31

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
EARNINGS (as % of income)					
Income					
Investment	91.2%	90.8%	89.6%	87.6%	87.5%
Fees and commissions	7.1	7.5	8.6	10.4	10.3
Other	1.7	1.7	1.8	2.0	2.2
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Expense					
Interest on deposits	72.9	70.3	72.4	69.7	71.5
Salaries, employee benefits and commissions	11.2	11.7	12.5	13.7	13.4
Other	7.4	7.4	7.1	7.3	7.1
	<u>91.5</u>	<u>89.4</u>	<u>92.0</u>	<u>90.7</u>	<u>92.0</u>
Earnings before income taxes	8.5	10.6	8.0	9.3	8.0
Income taxes	2.3	3.7	2.6	3.7	3.7
Net earnings	<u>6.2%</u>	<u>6.9%</u>	<u>5.4%</u>	<u>5.6%</u>	<u>4.3%</u>
NET EARNINGS RATIOS					
To average					
Assets	.67%	.74%	.60%	.58%	.44%
Convertible preference and common shareholders' equity	17.6 %	19.1 %	14.2 %	13.1 %	11.2 %
Per full-time employee	\$11,160	\$11,243	\$8,025	\$6,328	\$4,169
ASSETS, LIABILITIES AND EQUITY (as % of total assets)					
Assets					
Cash, deposits and short term notes	8.4%	10.7%	9.8%	7.0%	5.7%
Securities	12.7	10.5	8.3	9.4	8.4
Loans	77.3	77.1	80.3	81.9	84.0
Other investments	.9	.9	.7	.6	.7
Land, premises and equipment	.7	.8	.9	1.1	1.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Liabilities					
Deposits payable after notice	33.6%	34.2%	33.6%	28.6%	31.1%
Term deposits	61.2	60.4	61.6	66.0	63.8
Total deposits	94.8	94.6	95.2	94.6	94.9
Other liabilities	.2	.4	.1	.1	.2
Future income taxes	.7	.7	.7	.7	.9
	<u>95.7</u>	<u>95.7</u>	<u>96.0</u>	<u>95.4</u>	<u>96.0</u>
Shareholders' equity	4.3	4.3	4.0	4.6	4.0
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
ASSET, LIABILITY AND EQUITY RATIOS					
Loans					
To total deposits	81.5%	81.5%	84.4%	86.6%	88.5%
Shareholders' equity					
To loans	5.6%	5.6%	5.0%	5.6%	4.8%
Deposit multiple	18.64x	18.48x	19.90x	18.05x	19.32x
Preference share portion of shareholders' equity	34.9%	33.0%	25.5%	31.2%	9.6%

TABLE OF AVERAGE HOLDINGS

	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
			(in millions of dollars)		
Total average investments	\$4,658	\$3,931	\$3,003	\$2,340	\$1,987
Total average mortgages	3,370	2,936	2,327	1,851	1,639
Total average deposits	4,384	3,731	2,860	2,227	1,904

SIMPLIFIED FINANCIAL STATEMENTS

Year ended December 31
1978 1977
(in thousands of dollars)

HOW WE EARNED OUR INCOME

1. Interest from cashable term deposits, notes, bonds and debentures held to provide cash as required and to meet government regulations	\$ 64,329	\$ 52,551
2. Dividends from shares we own in other companies	17,607	10,823
3. Interest from mortgages, fully secured and consumer loans held as investments	382,399	331,309
4. Income from leasing equipment to provinces, municipalities and corporations	1,990	1,908
5. Fees and commissions from services we provided our clients in		
(a) administering the assets of		
(i) personal trusts	10,397	9,449
(ii) pension and pooled trust funds	6,527	5,556
(b) transferring stocks, acting as bond trustee, disbursing dividends and interest of other companies	2,321	2,005
(c) selling residential, commercial and industrial real estate	16,887	15,760
6. Service charges, commission on sale of Canada Savings Bonds and fees for the other services we provide	<u>8,770</u>	<u>7,613</u>
Total income earned	<u><u>\$511,227</u></u>	<u><u>\$436,974</u></u>

HOW WE USED OUR INCOME

1. Interest paid on the money our clients entrusted to us in		
(a) chequing, personal chequing, daily interest savings, savings, registered home ownership and retirement savings accounts	\$ 82,661	\$ 61,817
(b) short term certificates cashable after notice	23,983	16,132
(c) debentures, guaranteed investment certificates, income averaging contracts and tax sheltered term retirement plans	266,039	229,363
2. Salaries paid, including pension and other benefit costs, to our employees	45,487	40,421
3. Commissions paid to sales representatives for selling real estate	11,662	10,852
4. The cost, less rents earned, of our office space, computer and other equipment to provide our services	15,444	13,108
5. Paid for advertising, research and promotion	3,802	3,898
6. Paid for stationery, telephone and other costs required to conduct our business, and provide for possible future investment losses	18,547	15,233
7. Provided for income taxes to the Government of Canada and to the provinces in which we operate	11,718	16,164
8. Dividends paid to shareholders	14,324	12,816
9. Earnings retained to finance future growth	<u>17,560</u>	<u>17,170</u>
Total income used	<u><u>\$511,227</u></u>	<u><u>\$436,974</u></u>

At December 31
1978 1977
(in thousands of dollars)

HOW WE OBTAINED MONEY TO INVEST

1. Held in separate chequing, personal chequing, daily interest savings, savings, registered home ownership and retirement savings accounts	\$1,425,283	\$1,251,087
2. Held in certificates of deposit which mature in less than one year	306,829	255,927
3. Held in debentures, guaranteed investment certificates, income averaging contracts and tax sheltered term retirement plans	3,151,815	2,656,467
4. Other liabilities outstanding at year-end which will be paid at a future date	9,881	15,503
5. Income taxes which will be paid at some future date	35,276	31,215
6. Money invested by shareholders to finance the operation and future growth of our company	<u>221,746</u>	<u>189,239</u>
Total money obtained	<u>\$5,150,830</u>	<u>\$4,399,438</u>

HOW WE INVESTED THIS MONEY

1. Held in cash and invested in cashable term deposits and notes which can be cashed on short notice to meet the daily demands of our clients	\$ 432,485	\$ 472,914
2. Invested in securities issued by the Government of Canada, provincial governments and corporations	654,251	460,030
3. Invested in mortgage, consumer, personal and fully secured loans to help finance our clients' needs	3,980,403	3,393,403
4. Invested in equipment leased to provinces, municipalities and corporations	31,507	28,837
5. Purchased land, buildings and equipment necessary to provide services from coast to coast at our 154 (138 in 1977) branches and mortgage offices and 53 (58 in 1977) real estate offices	44,126	40,478
6. Income taxes recoverable	34	
7. Real estate acquired in settlement of loans	<u>8,024</u>	<u>3,776</u>
Total money invested	<u>\$5,150,830</u>	<u>\$4,399,438</u>
Value of assets handled by our trust departments	\$4,333,000	\$3,460,000
Total value of assets entrusted to our care	\$9,484,000	\$7,860,000

FOURTH QUARTER CONSOLIDATED STATEMENT OF EARNINGS

three months ended December 31

(unaudited)

	1978	1977	% Increase (Decrease)
Income			
Investment			
Cashable term deposits and securities	\$ 23,328,000	\$ 17,127,000	36
Loans and other	102,303,000	88,272,000	16
	<u>125,631,000</u>	<u>105,399,000</u>	19
Fees and commissions			
Personal trust	2,819,000	2,628,000	7
Pension and pooled trust funds	668,000	590,000	13
Corporate trust	684,000	689,000	(1)
Real estate sales	4,408,000	3,873,000	14
	<u>8,579,000</u>	<u>7,780,000</u>	10
Other	3,690,000	2,287,000	61
	<u>137,900,000</u>	<u>115,466,000</u>	19
Expenses			
Interest on deposits	103,671,000	80,757,000	28
Salaries, pension and other employee benefits	11,662,000	10,473,000	11
Real estate commissions	3,347,000	2,827,000	18
Net occupancy and equipment	3,729,000	3,334,000	12
Advertising	768,000	849,000	(10)
Other	5,207,000	4,457,000	17
	<u>128,384,000</u>	<u>102,697,000</u>	25
Earnings before income taxes	9,516,000	12,769,000	(25)
Income taxes	1,678,000	4,384,000	(62)
Net earnings	<u>\$ 7,838,000</u>	<u>\$ 8,385,000</u>	(7)
Attributed to			
Preference shares non-convertible	\$ 745,000	\$ 474,000	57
Preference shares convertible	565,000	565,000	
Common shares	6,528,000	7,346,000	(11)
	<u>\$ 7,838,000</u>	<u>\$ 8,385,000</u>	(7)
Net earnings per common share - basic	\$.93	\$ 1.06	(12)
Net earnings per common share - fully diluted	.87	.97	(10)
Dividends paid per common share	.33	.30	10

EXECUTIVE AND SENIOR MANAGEMENT

Arthur H. Mingay*
Chairman of the Board and
Chief Executive Officer
Mervyn L. Lahn
President and Chief Operating Officer

REGIONAL

PACIFIC REGION

Regional Office
901 West Pender at Hornby, Vancouver
Archie H. Kerr
Senior Vice-President
Kenneth W. Shewfelt
Assistant Vice-President
Kenneth W. Meston
Assistant Vice-President-Manager
Vancouver Main Branch

PRAIRIE REGION

Regional Office
239 - 8th Avenue S.W., Calgary
Derek J. Warren
Senior Vice-President
Robert J. McClelland
Assistant Vice-President
Larry J. Honcoop
Assistant Vice-President-Manager
Calgary Main Branch

SOUTHWESTERN ONTARIO REGION

Regional Office
220 Dundas at Clarence, London
Peter C. Maurice
Vice-President
Robert P. Morneau
Assistant Vice-President
A. James Scafe
Assistant Vice-President-Manager
London Main Branch

MIDWESTERN ONTARIO REGION

Regional Office
305 King W. at Water, Kitchener
J. Terence Osbourne
Vice-President
W. Lindsay Somerville
Assistant Vice-President
Wilfred W. Park
Assistant Vice-President-Manager
Kitchener Main Branch

CENTRAL ONTARIO REGION

Regional Office
110 Yonge at Adelaide, Toronto
Melvin M. Hawkrigg
Senior Vice-President
Liam S. O'Brian
Vice-President
Corporate Business Development

George W. Stoyles
Vice-President-Manager
Toronto Main Branch
Fred S. Collier
Assistant Vice-President

HAMILTON/NIAGARA REGION

Regional Office
46 King East, Hamilton
Leo P. Sauve
Vice-President
Ronald Clayton
Assistant Vice-President
Eric G. Smith
Assistant Vice-President

NORTHERN ONTARIO/QUEBEC/ ATLANTIC REGION

Regional Office
170 Laurier W. at Metcalfe, Ottawa
Leonard W. Stoll
Vice-President
Stan A. Martin
Assistant Vice-President
James R. Wilken
Assistant Vice-President-Manager
Ottawa Main Branch

HEAD OFFICE

Canada Trust Tower
275 Dundas at Wellington, London

CLIENT SERVICES

Jack H. Speake
Group Vice-President
P. Albert Heiland
Vice-President-Trust and Corporate
Services
Donald A. MacDonald*
Assistant Vice-President-Corporate
Trust Services
James T. McDougall
Assistant Vice-President-Personal
Trust Services
Douglas E. Wannamaker
Assistant Vice-President-Pension
Trust Services
Norman White
Assistant Vice-President-Computer
Services

B. Eric Minns
Vice-President-Savings Services
Douglas R. Dolman
Assistant Vice-President-Premises
John L. Doran
Assistant Vice-President-Demand Savings
William C. Thornhill
Assistant Vice-President-Term and
RSP Savings Services

Charles C. Parsons
Vice-President-Data Resources
J. Brent Kelman
Assistant Vice-President-Development
and Technical Services
D. Eric MacMillan
Assistant Vice-President-Data Processing
Services
Frank W. Pratt
Vice-President-Marketing Services
John D. Richardson
Vice-President-Comptroller and
Tax Services
Gwyn E. Williams
Vice-President-Loans and Real Estate
Services
Warren C. Elliott
Assistant Vice-President-Mortgage
Services
Sean J. McNamara
Assistant Vice-President-Credit Card
Services
G. Douglas Peaker
Assistant Vice-President-Real Estate Sales
John F. Schucht
Assistant Vice-President-Real Estate
Investments
Leo W. Tiberio
Assistant Vice-President-Loans Services
Eric W. Daly
Assistant Vice-President-Planning

FINANCE

Herbert N. Seath*
Senior Vice-President
Duncan A. Baillie*
Vice-President-Treasurer
W. James Blowers*
Vice-President-Investments

PERSONNEL SERVICES

James T. Lindores
Vice-President
Duncan F. Tilly
Assistant Vice-President-Personnel
Resources

GENERAL COUNSEL AND SECRETARY

C. Robert Clarke
Vice-President

CORPORATE AFFAIRS

E. Donald L. Miller
Vice-President

AUDIT SERVICES

Robert E. Redgwell
Vice-President

**Located at Executive Offices
Canada Trust Building,
110 Yonge Street,
Toronto, Ontario*

PACIFIC ADVISORY GROUP

*R.B. WILSON, Victoria
President, The B. Wilson Company Limited
° C.W. BRAZIER, Vancouver
Barrister and Solicitor
H. CLARK BENTALL, Vancouver
Chairman and Chief Executive Officer
Dominion Construction Company Limited

C.C. KNUDSEN, Vancouver
President and Chief Executive Officer
MacMillan Bloedel Limited
RICHARD I. NELSON, Vancouver
Chairman and Chief Executive Officer
British Columbia Packers Limited
EDWIN C. PHILLIPS, Vancouver
President and Chief Executive Officer
Westcoast Transmission Company Limited

CLARKE A. SIMPKINS, Vancouver
President, Clarke Simpkins Limited
H.R. STEPHEN, Victoria
Retired Executive
J.D. WILSON, Vancouver
Corporate Director

*Chairman °Vice-Chairman

REAL ESTATE AND MORTGAGE OFFICES

*Company Owned Premises

Gerry T. O'Connor
Regional Real Estate Manager
Pacific and Prairie Regions

PACIFIC REGION

VANCOUVER

1475 W. Broadway at Granville
5710 Yew at West 41st
450 Main at Pender

BURNABY

5665 Kingsway near Royal Oak

RICHMOND

Brighthouse Centre, No. 3 at Cook Rd.

VICTORIA

2252 Oak Bay Ave.

NANAIMO

94 Commercial St.

PRINCE GEORGE

500 Victoria at 5th*

PRAIRIE REGION

CALGARY

6624 Centre S. at Glenmore Tr.
1324 Centre St. N.E.

EDMONTON

9805 - 71st St.

RED DEER

4928 Ross St.*

LETHBRIDGE

622 - 3rd Ave. at 7th St. S.*

MEDICINE HAT

477 - 3rd St. at 5th Ave. S.E.*

REGINA

277 Albert at 3rd Ave. N.

SASKATOON

115 - 2nd Ave. N. at 22nd St. E.

WINNIPEG

1103 Henderson Hwy. at Oakland

BRANDON

636 Rosser Ave.*

Gene L. Baillargeon
Regional Real Estate Manager
Southwestern and Midwestern Ontario
Regions

SOUTHWESTERN ONTARIO REGION

SARNIA

London Rd., across from Lambton Mall
LONDON

245 Pall Mall near Richmond

1314 Huron at Highbury*

Sherwood Forest Mall

Century Centre, Wellington S. at Bradley

795 Wonderland at Westmount Mall

ST. THOMAS

378 Talbot at Elgin*

STRATHROY

360 Caradoc at Ontario

MIDWESTERN ONTARIO REGION

KITCHENER

305 King at Water*

WATERLOO

225 Weber St. N.

STRATFORD

25 Ontario St.

CAMBRIDGE

415 Hespeler Rd.

ELMIRA

53 Arthur St.*

GUELPH

30 Wyndham at Cork*

FERGUS

298 St. Andrews at Tower*

Jim R. Grieve

Regional Real Estate Manager

Hamilton/Niagara, Central Ontario and

Northern Ontario/Quebec/Atlantic Regions

HAMILTON/NIAGARA REGION

HAMILTON

592 Upper James at Brucedale

BURLINGTON

Eastway Plaza, 4045 New St.

DUNDAS

60 King W. near Sydenham

CALEDONIA

14 Caithness St. E.

SIMCOE

46 Norfolk at Young*

ST. CATHARINES

Midtown Plaza, 104 Welland Ave.

NIAGARA FALLS

4463 Queen at St. Clair*

WELLAND

87 Main at Cross*

CENTRAL ONTARIO REGION

TORONTO NORTH

4763 Yonge N. at Sheppard

TORONTO EAST

2432 Eglinton E. at Kennedy

Shoppers' World, 3003 Danforth Ave.

TORONTO WEST

2962 Bloor W. near Royal York

Markland Wood Plaza, 4335 Bloor W.

109 Rexdale near Islington

MISSISSAUGA

Highway 10 south of 5*

OAKVILLE

83 Trafalgar at Lakeshore E.*

BRAMPTON

28 Main St. N.*

HALTON HILLS

29 Main at James*

BARRIE

91 Dunlop at Memorial Square

NORTHERN ONTARIO/QUEBEC/ ATLANTIC REGION

OTTAWA

Westgate Sh. Centre, Carling at Merivale

MORTGAGE OFFICES

TORONTO

250 Bloor E. at Jarvis

OWEN SOUND

830 - 3rd Ave. E.

THUNDER BAY

1265 Arthur St. E.

KAMLOOPS

190 - 546 St. Paul St.

FINANCIAL SERVICES BRANCHES

*Company Owned Premises

PACIFIC REGION

VANCOUVER

901 West Pender at Hornby*
5695 Cambie at 41st
450 Main at Pender
2198 West 41st at Yew
1040 Denman at Comox

WEST VANCOUVER

Park Royal Shopping Centre
NEW WESTMINSTER

704 - 6th St. at 7th Ave.

BURNABY

5000 Kingsway Plaza
RICHMOND

Lansdowne Park Mall
Brighthouse Centre, No. 3 at Cook Rd.
Broadmoor Mall, No. 3 at Williams

CLEARBROOK

Meadow Fair Plaza, South Fraser Way

VICTORIA

650 View at Broad*

NANAIMO

Terminal Park Plaza

PRINCE GEORGE

500 Victoria at 5th*

PRAIRIE REGION

CALGARY

239 - 8th Ave. S.W. at 2nd
Market Mall, 3625 Shaganappi Tr.
Southcentre Mall, 100 Anderson Rd. S.E.
Richmond Square, Richmond at Sarcee

EDMONTON

10150 - 100th St. at 101A Ave.*
Thomcliffe Plaza, 8646 - 175th St.
Millbourne Mall, 38th Ave. at Millwoods
Castle Downs Town Square, 1533
Castle Downs Rd.

RED DEER

4928 Ross St.*

LETHBRIDGE

622 - 3rd Ave. at 7th St. S.*

MEDICINE HAT

477 - 3rd St. at 5th Ave. S.E.*

REGINA

1921 Scarth at Victoria Pk.*

SASKATOON

115 - 2nd Ave. N. at 22nd St. E.

MOOSE JAW

318 Main St. N.*

WINNIPEG

230 Portage at Fort*
Unicity Mall, 3605 Portage Ave.

BRANDON

636 Rosser Ave.*

SOUTHWESTERN ONTARIO REGION

WINDSOR

190 University W. at Victoria
600 Ouellette at Wyandotte*
Devonshire Mall, 3100 Howard Ave.

SARNIA

357 Christina at London Rd.*
139 Lochiel near Christina
London Rd., across from Lambton Mall

CHATHAM

62 King at Market Square*
Chatham Place, Hwy. 40

LEAMINGTON

Talbot at Erie

LONDON

City Centre, 275 Dundas at Wellington
220 Dundas at Clarence*
4 Covent Market Place*
1401 Ernest at Bradley
795 Wonderland at Westmount Mall
1213 Oxford near Hyde Park*
215 Oxford W. at Platt's Lane*
1055 Hutton Rd. at Sherwood*
754 Dundas at English
191 Wortley at Elmwood*
1137 Richmond at University*
Horizon Mall, 1253 Huron at Highbury

1030 Adelaide at Cheapside
305 Boler near Commissioners
ST. THOMAS
378 Talbot at Elgin*
Elgin Mall, 417 Wellington St.
STRATHROY
360 Caradoc at Ontario

MIDWESTERN ONTARIO REGION

KITCHENER

305 King at Water*
69 King at Ontario*
Market Square, King at Frederick
Fairview Mall, Hwy. 8 at Fairway Rd.
693 Belmont at Claremont*
Forest Hill Plaza, 421 Greenbrook Dr.
Stanley Park Mall, 1005 Ottawa at River
Pioneer Park Plaza, 123 Pioneer Park Dr.

WATERLOO

90 Weber at Lincoln*
8 Erb at King*
Westmount Place, 50 Westmount Rd. N.
Conestoga Mall, King N. at Conestoga Pkwy.

STRATFORD

41 Downie at Albert*

CAMBRIDGE

44 Main St.*
John Galt Centre, 355 Hespeler Rd.
661 King at Westminster*
South Cambridge S. C., Hwy. 8 at 97

ELMIRA

57 Arthur St.*

GUELPH

34 Wyndham at Cork*
Willow West Mall, Silvercreek Pkwy. at
Willow Rd.
666 Woolwich at Speedvale
Edinburgh Rd., south of Silvercreek Pkwy.

FERGUS

298 St. Andrews at Tower*

LISTOWEL

Listowel Plaza, Highway 23 N.

View at Broad, Victoria



Southcentre Mall, Calgary



HAMILTON/NIAGARA REGION

HAMILTON

46 King E. at Hughson*
Jackson Square, King W. at James
Greater Hamilton S. C. (in Robinson's),
Barton at Kenilworth
Eastgate Square, Queenston Rd. at
Centennial Pkwy.
Fennel at Upper Wentworth

BURLINGTON

Burlington Mall, 777 Guelph Line
Burlington Mall (in Robinson's)
510 Brant at Caroline*
Appleby Line at New

DUNDAS

60 King W. near Sydenham

STONEY CREEK

Hwy. 8, east of Centennial Pkwy.

GRIMSBY

56 Main at Christie

DUNNVILLE

163 Lock at Queen*

ST. CATHARINES

60 James at King*
Pen Centre, Glendale Dr.
Grantham Plaza, Scott at Vine

NIAGARA FALLS

4463 Queen at St. Clair*
Town & Country Plaza, 3645 Portage Rd.
Niagara Square, Q.E.W. at McLeod Rd.

THOROLD

16 Front at Albert*

WELLAND

87 Main at Cross*

FORT ERIE

70 Jarvis St.*

PORT COLBORNE

136 Clarence at Elm

DELHI

78 Church at Queen

SIMCOE

46 Norfolk at Young*
Simcoe Mall, Hwy. 3 at 24

CENTRAL ONTARIO REGION

TORONTO CENTRAL

110 Yonge at Adelaide*
1468 Queen W. at Lansdowne*
558 Bloor W. at Bathurst
15 St. Clair W. at Yonge*
1064 Eglinton W. at Bathurst*
472 Eglinton W. at Castle Knock*
2453 Yonge at Erskine

TORONTO NORTH

St. Andrews Plaza, 29 The Links Rd.
Fairview Mall, Sheppard at Don Valley
Bayview Woods Plaza, Finch between
Bayview and Leslie
3471 Sheppard, east of Warden

TORONTO EAST

Shoppers' World, 3003 Danforth Ave.

TORONTO WEST

Richview Plaza, Eglinton between
Islington and Kipling
3006 Bloor near Royal York
2913 Lakeshore Blvd. W.*
Markland Wood Plaza, 4335 Bloor W.

MISSISSAUGA

Highway 10 south of 5*
Square One
Meadowdale Town Centre, 2900
Aquitaine Ave.

RICHMOND HILL

Hillcrest Mall, 9350 Yonge N.

OSHAWA

19 Simcoe N. at King

OAKVILLE

282 Lakeshore E. at Trafalgar*

BRAMPTON

28 Main St. N.*
Bramalea City Centre
Shoppers' World, Hwy. 10 at Steeles
HALTON HILLS

29 Main at James*

MILTON

252 Main at Charles*

ORANGEVILLE

Highland Mall, 150 First St.

BARRIE

91 Dunlop at Memorial Square

NORTHERN ONTARIO/QUEBEC/ ATLANTIC REGION

OTTAWA

170 Laurier W. at Metcalfe
Westgate Sh. Centre, Carling at Merivale

KINGSTON

94 Princess at Wellington*

CORNWALL

6 - 2nd E. at Pitt

KAPUSKASING

Model City Mall

KIRKLAND LAKE

51 Government Rd. W.*

NEW LISKEARD

Timiskaming Square

NORTH BAY

422 Fraser at McIntyre
North Bay Mall, Lakeshore at Mulligan

SUDBURY

124 Cedar near Lisgar

TIMMINS

194 Third at Cedar

MONTREAL

800 Dorchester Blvd. W.

HALIFAX

6239 Quinpool at Monastery

Fairview Mall, Kitchener



Markland Wood Plaza, Toronto



CANADA TRUSTCO MORTGAGE COMPANY

Shareholder Quarterly

Six Months Ended June 30, 1978

Second quarter net earnings improved by 16% over the comparable quarter in 1977. For the first half, net earnings per common share – fully diluted were up 20% at \$1.89 versus \$1.58 for the six months ended June 30, 1977.

At June 30, 1978 total assets under administration were \$8.7 billion, an increase of \$1.2 billion or 15% from one year earlier.

Interest rate spread on a taxable equivalent basis for the second quarter and for the six months at 2.08% has deteriorated somewhat from 2.14% for 1977. This decrease is due to a 1% increase in the non-chequable savings rate which has occurred in recent months, while during the same period mortgage loan rates have been essentially unchanged. The narrowing of interest rate spread is likely to persist into the third and fourth quarters because of less than buoyant loan demand coupled with expected upward pressure on deposit rates.

During the quarter additional capital was acquired. On May 31, 1978, \$15 million floating rate preference shares series E were sold by private placement. The dividend will vary quarterly, based on a formula related to the chartered bank prime rate which indicates a current rate of 5.875%. While this additional capital was not immediately required, it was deemed prudent to obtain same when readily available on favourable terms.

Financial services branches have been opened in Sarnia-London Road and Guelph-Edinburgh Road during the second quarter,

bringing openings to four for the first half of 1978. Nanaimo branch was relocated in new modern quarters. A mortgage office was opened in Thunder Bay in April. During the balance of the year an additional twelve branches are scheduled for opening. At year-end the number of branches and mortgage offices will be 154.

A new IBM 3033 computer, the first in Canada, was successfully installed on May 5 thus signalling a new era in computerized financial services at Canada Trust. (Further details may be found on the back page).

Loan payment arrears experience continues to be most satisfactory notwithstanding the persistent high level of unemployment. The percentage of mortgage accounts in arrears 18 days or more was 1.71% at June 30, 1978 compared with an average of 2.40% for 1977. Consumer, personal and demand loan arrears at mid-year were 0.84% of outstanding accounts compared with 1.02% at December 31, 1977. Loss experience on loans of all types is also excellent and at a lower level than in 1977.

The earnings outlook for the last half of the year is relatively flat compared with the third and fourth quarters of 1977 when earnings per common share – fully diluted were 95¢ and 97¢ respectively. It is expected that 1978 earnings will, however, exceed the \$3.50 per common share – fully diluted earned in 1977.

July 17, 1978

Canada Trustco

The following statements are the unaudited consolidated results for the three months and six months ended June 30, 1978 showing a comparison for the same periods in 1977. The earnings shown do not necessarily represent an annual rate of profit, because of seasonal variations.

STATEMENT OF EARNINGS			THREE MONTHS ENDED JUNE 30			SIX MONTHS ENDED JUNE 30		
	1978	1977	% Increase (Decrease)	1978	1977	% Increase (Decrease)		
INCOME								
Investment								
Cashable term deposits and securities	\$ 19,857,000	\$ 15,732,000	26	\$ 36,480,000	\$ 29,287,000	25		
Loans and other	94,093,000	81,543,000	15	184,207,000	159,682,000	15		
	<u>113,950,000</u>	<u>97,275,000</u>	17	<u>220,687,000</u>	<u>188,969,000</u>	17		
Fees and commissions								
Personal trust	2,370,000	1,935,000	22	5,488,000	4,831,000	14		
Pension and pooled trust funds	1,501,000	1,292,000	16	4,348,000	3,762,000	16		
Corporate trust	598,000	433,000	38	1,088,000	792,000	37		
Real estate sales	4,309,000	4,266,000	1	7,178,000	6,919,000	4		
	<u>8,778,000</u>	<u>7,926,000</u>	11	<u>18,102,000</u>	<u>16,304,000</u>	11		
Other	2,150,000	2,096,000	3	3,708,000	3,913,000	(5)		
	<u>124,878,000</u>	<u>107,297,000</u>	16	<u>242,497,000</u>	<u>209,186,000</u>	16		
EXPENSE								
Interest on deposits	90,233,000	76,029,000	19	173,203,000	148,855,000	16		
Salaries, pension and other employee benefits	11,235,000	10,029,000	12	22,536,000	19,602,000	15		
Real estate commissions	2,795,000	2,856,000	(2)	4,702,000	4,605,000	2		
Net occupancy and equipment	3,792,000	3,119,000	22	7,601,000	6,332,000	20		
Advertising	938,000	1,072,000	(12)	1,987,000	2,070,000	(4)		
Other	4,474,000	3,396,000	32	8,627,000	6,875,000	25		
	<u>113,467,000</u>	<u>96,501,000</u>	18	<u>218,656,000</u>	<u>188,339,000</u>	16		
Earnings before income taxes	11,411,000	10,796,000	6	23,841,000	20,847,000	14		
Income taxes	3,183,000	3,718,000	(14)	7,448,000	7,470,000			
NET EARNINGS	<u>\$ 8,228,000</u>	<u>\$ 7,078,000</u>	16	<u>\$ 16,393,000</u>	<u>\$ 13,377,000</u>	23		
Attributed to								
Preference shares non-convertible	\$ 548,000	\$ 374,000	47	\$ 1,015,000	\$ 516,000	97		
Preference shares convertible	565,000	566,000		1,131,000	1,132,000			
Common shares	7,115,000	6,138,000	16	14,247,000	11,729,000	21		
	<u>\$ 8,228,000</u>	<u>\$ 7,078,000</u>	16	<u>\$ 16,393,000</u>	<u>\$ 13,377,000</u>	23		
Net earnings per common share-basic	\$1.02	88¢	16	\$2.04	\$1.68	21		
Net earnings per common share-fully diluted	94¢	82¢	15	\$1.89	\$1.58	20		
Dividends paid per common share	38¢	40¢	(5)	68¢	70¢	(3)		
Number of shares outstanding								
Preference non convertible series A, D and E	2,312,059	1,575,000		2,312,059	1,575,000			
convertible series B and C	1,556,377	1,556,437		1,556,377	1,556,437			
Common Class A	6,782,001	6,256,732		6,782,001	6,256,732			
Class B	206,810	731,931		206,810	731,931			



STATEMENT OF CONDITION

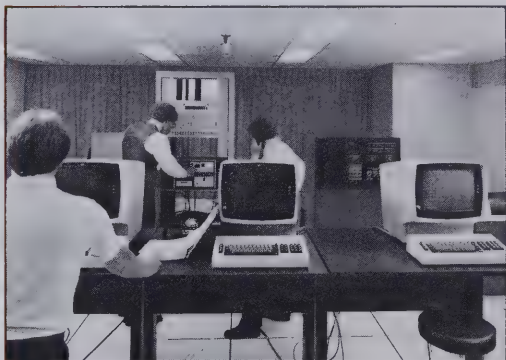
	<u>JUNE 30 1978</u>	<u>% Increase (Decrease)</u>	<u>JUNE 30 1977</u>	<u>DECEMBER 31 1977</u>
ASSETS				
Investments				
Cash, short term notes, deposits	\$ 584,869,000	12	\$ 522,554,000	\$ 472,914,000
Securities	542,718,000	41	386,071,000	457,344,000
Loans and other	3,702,216,000	16	3,183,839,000	3,428,702,000
	<u>4,829,803,000</u>	18	<u>4,092,464,000</u>	<u>4,358,960,000</u>
Premises and equipment	41,590,000	18	35,140,000	40,478,000
	<u>\$4,871,393,000</u>	18	<u>\$4,127,604,000</u>	<u>\$4,399,438,000</u>
LIABILITIES				
Deposits	\$4,614,388,000	18	\$3,912,452,000	\$4,163,481,000
Other	10,032,000	10	9,150,000	15,503,000
Provision for future income taxes	33,506,000	25	26,828,000	31,215,000
	<u>4,657,926,000</u>	18	<u>3,948,430,000</u>	<u>4,210,199,000</u>
SHAREHOLDERS' EQUITY	<u>213,467,000</u>	19	<u>179,174,000</u>	<u>189,239,000</u>
	<u>\$4,871,393,000</u>	18	<u>\$4,127,604,000</u>	<u>\$4,399,438,000</u>
Personal, pension and pooled trust funds	\$3,793,000,000	12	\$3,379,000,000	\$3,460,000,000
Total assets under administration	<u>\$8,664,000,000</u>	15	<u>\$7,507,000,000</u>	<u>\$7,860,000,000</u>

QUARTERLY ANALYSIS OF NET EARNINGS (in thousands of dollars except interest rate spread and earnings per share)

Quarter	Interest rate spread-taxable equivalent basis	Investment income less interest on deposits	Fees and commissions	Non interest expenses	Net earnings	Net earnings per common share - fully diluted
1st	1.63 %	\$ 9,004	\$ 5,863	\$10,029	\$ 2,891	\$.52
2nd	1.54	8,531	5,183	10,855	2,035	.37
3rd	1.35	7,737	5,429	10,702	1,996	.36
4th	1.40	8,036	4,782	10,973	2,107	.36
1974	1.47	33,308	21,257	42,559	9,029	1.61
1st	1.48	8,762	6,121	11,731	2,391	.40
2nd	1.93	11,851	6,179	12,914	3,680	.57
3rd	1.76	11,885	6,971	13,436	3,750	.55
4th	1.90	12,481	6,733	14,565	4,258	.62
1975	1.77	44,979	26,004	52,646	14,079	2.14
1st	1.74	12,854	7,451	15,030	4,112	.60
2nd	1.85	13,330	6,344	15,379	4,103	.59
3rd	1.68	14,120	7,377	16,494	4,197	.57
4th	1.93	16,075	6,695	17,107	5,291	.71
1976	1.80	56,379	27,867	64,010	17,703	2.47
1st	1.90	18,868	8,378	19,012	6,299	.76
2nd	2.10	21,246	7,926	20,472	7,078	.82
3rd	2.31	24,098	8,686	22,088	8,224	.95
4th	2.25	24,467	7,780	21,940	8,385	.97
1977	2.14	88,679	32,770	83,512	29,986	3.50
1st	2.08	23,767	9,324	22,219	8,165	.95
2nd	2.08	23,717	8,778	23,234	8,228	.94
1978	2.08	47,484	18,102	45,453	16,393	1.89



New Computer Geared to Go!



The Network Control Centre, located at head office in London, is the heart of Canada Trust's national on-line savings system. It's here that the new IBM 3033 computer and the COFIS (Canadian On-Line Finance Industry System) 3600 system are monitored by a skilled team of analysts to provide Canada Trust customers with the most up-to-date computerized banking technology in the country.

The IBM 3033 - the newest, largest and most powerful IBM business computer - first of its kind in Canada and 11th in the world was installed May 5th. This facilitates the conversion of our present on-line branches to the 3600 financial terminals beginning in July. By the first quarter of 1979, all present on-line branches will be on it.

The IBM 3033 has a capacity of five million instructions per second compared to 800,000 per second on the former computer. Internally this means increased productivity and throughput; to customers it means faster, more efficient transaction service.



For release after 2:00 p.m.
Eastern Standard Time
February 21, 1978

Remarks by

M. L. LAHN

EXECUTIVE VICE-PRESIDENT

CANADA TRUSTCO

at the Annual General Meeting of Shareholders

February 21, 1978



Mr. Chairman, Ladies and Gentlemen:

At the last three annual meetings comments on the operating results for 1974, 1975 and 1976 highlighted the underachievement of potential earnings due to lack of attainment of adequate interest rate spread on our deposit and investment operations. It is a pleasure to note that 1977 net earnings were well in line with our potential based on achievement of a 2% or better interest rate spread on a taxable equivalent basis. Actual spread achieved in 1977 was 2.14% — the best level since 2.25% in 1972.

Return on common shareholders' average equity on a fully diluted basis was 19.1%, second only to 19.3% achieved in 1972 which was a record. Our target is to average a 15% return on common shareholders' average equity — fully diluted. Over the last five years the average has been 14.96%. There is valid reason to believe that we will be well on target in 1978.

The principal reason for optimism is the progress which has been made in asset — liability matching as to maturities. Since 1974 when these statistics were first presented to shareholders, the mismatch between assets and liabilities with a maturity of one year and under has been reduced from 34% to 17%. If floating rate obligations are included as being equivalent to assets maturing under one year, the mismatch at December 31, 1977 was 13%.

Pursuit of our goal of full matching of asset and liability maturities has penalized operating earnings in the last three years. It will have the desired effect, however, of producing a more stable interest rate spread, thus protecting earning-power, should interest rates move upward.

The supplement to the Annual Report points out that various options are available, within generally accepted accounting principles, in reporting the Company's results. Where alternatives are available the judgment of directors and management has been to select the most conservative posture for the 1977 financial presentation. Two items in the statements warrant special comment. First, depreciation policy on buildings was changed to an annual rate of 5% in 1977 compared with 2½% in 1976. Prudence and conservatism so dictated, notwithstanding additional expense of \$775,000 in 1977 due to the accounting policy change. Second, although not required either by government regulation or generally accepted accounting or actuarial principles, a special payment of \$1 million was made towards the pension plan unfunded liability of \$6 million. A similar or greater special payment is planned in 1978.

Over many years the Company has opted for the most conservative accounting principles, notwithstanding resultant earnings reduction. We are confident that our financial statements are amongst the most conservatively presented in our industry. In our opinion our statements also give the most complete disclosure of any in the trust and loan industry.

During 1977 charitable contributions of \$362,000 were made to a wide variety of beneficial projects throughout the country. The amount was more than double the \$150,000 contributed in 1976 due, in part, to a decision taken to prepay \$119,000 of pledges. Approximately \$100,000 of pledges are presently outstanding.

Shareholders will have noted the increase in real estate acquired in settlement of loans from \$349,000 at December 31, 1976 to \$3,808,000 at December 31, 1977. While the increase represents a large percentage, an analysis of the account indicates no reason for concern. Largely due to economic conditions during 1977, we acquired, primarily through foreclosure, 157 properties. All were residential and 43 of the 157 were disposed of during the year at a surplus of approximately \$19,000 over our claim.

At year-end we had 114 properties on hand with 80 of these properties under mortgage insurance claims to Central Mortgage and Housing Corporation, Insmor Mortgage Insurance Company and Mortgage Insurance Company of Canada. A full claim settlement is expected on each of these properties within the first quarter of 1978. A further 26 properties have been sold for approximately the amount of our claim with the sales to be completed during the first quarter.

Eight properties remain unsold (five in Vancouver, one in Kitchener and two in Simcoe). Sales of these eight properties will likely result in a loss of less than \$10,000 for which ample provision has been made in the 1977 accounts.

Two former Lincoln Trust mortgage loans were disposed of during 1977 at a loss of \$781,000 pre-tax. This amount was included in the \$974,000 loans loss charged to the allowance for investment losses. The balance of approximately \$200,000 related to losses on our personal, consumer and miscellaneous loans operation which was well within industry experience.

Continuing adverse economic conditions in 1978 will undoubtedly see our foreclosure activity at a much higher level than that which we have regarded as normal over the past decade. This prognostication has been fully taken into consideration in setting the amount of \$2,300,000 charged to expense in 1977 as a provision for possible future investment losses. The 1978 profit plan provision has been increased to \$2,600,000.

Our real estate sales activities enjoyed increased gross sales commissions of 20% over 1976 and amounted to \$15,760,000 in 1977. However, after paying commissions to agents, advertising, salary, occupancy and all other expenses, this division sustained a loss in 1977 as it did in 1976. Ontario regions operated profitably, the Prairie region broke even — but losses in the Pacific region real estate sales operations were of sufficient magnitude to put the entire operation into a pre-tax loss of \$229,000. It has now been eight years since we seriously began expansion of our real estate sales activities. We have not yet achieved a satisfactory bottom line position. Surgery is being performed on unprofitable offices and we are optimistic as to profitable results this year, failing which even more drastic action will be undertaken.

When A.I.B. controls were introduced in October of 1975 to remain effective until 1978, we were of the opinion that we would not see an early end to them even though provision was made for earlier withdrawal. The Minister of Finance has announced a plan for ending the controls as at the end of a corporation's fiscal year following April 14, 1978. Accordingly, Canada Trust will be required to operate under the A.I.B. guidelines until December 31st of this year.

Final A.I.B. regulations for our financial intermediary operations were not established until the latter half of 1977. This meant that almost two years had passed before we knew for certain how we would be regulated. Although we were aware of how revenues would be measured for business arising in the control period, we did not know what measurement would be given to revenues from mortgages and other long-term investments already in place when the controls came into effect. By adopting conservative measures during the waiting period, we find that we have not breached the guidelines as finally determined and no excess revenue was created in either 1976 or 1977. Early in 1977, however, we became aware that Ontario Trust, one of the companies acquired in 1976, might have excess revenue for 1976. We have made provision for \$387,000 in our 1977 statements. We had asked permission of the A.I.B. that we be allowed to absorb any excess by adding it to our own operating revenues in 1977 for measurement of excess revenue, if any. The A.I.B., however, requires that the amount determined be used to benefit our former Ontario Trust customers. The A.I.B. has approved a plan of allocating it to certain mortgage borrowers.

So as not to create the impression that management of Ontario Trust were not adhering to guidelines, I must point out that the excess was created by a shift in investment policy, a perfectly normal decision made well in advance of any indications of forthcoming controls.

A year ago I commented that it required the skill and effort of many of our senior and knowledgeable staff to understand and to comply with the controls. We have not attempted to place a dollar cost on the time required for their personal involvement and their direction of others, for the cost of computer reprogramming, for the cost of analyzing records and the cost of all of the many other activities which became necessary for compliance. It has, however, been substantial. Those involved have met the extra workload in fine style, notwithstanding its non-productive nature.

The past year has been a very active one for our data processing operations. It was the first full year of using an operating system designed for large multi-processing installations. Our past year's experience has confirmed a successful conversion to this system.

Early in 1977 we took delivery of the Canadian On-line Financial Industry System package from IBM as replacement software for our present on-line savings system. This package uses standardized programs supported by IBM and provides us with greater flexibility in effecting systems changes. We have been devoting considerable time to testing and integrating this package with the needs of our savings operation. It supports the IBM 3600 financial terminals which we will be introducing into our on-line savings system and consequently, considerable time has been devoted to developing our 3600 terminal and communication network plans.

Increased transaction volumes and the processing requirements of the new system required an upgrade in one of our two computers in 1977. To accommodate future anticipated volumes we have ordered an IBM 3033 computer with eight megabytes of memory to replace our presently installed processors, a 370/158 used for batch systems and a 360/40 used for the on-line savings system.

In May, 1978 we will be taking delivery of the new computer, the first one to be delivered in Canada. It is the largest and most sophisticated of processors produced by IBM. With largeness and sophistication come increased complexities, one of which is the area of security and backup which we intend to strengthen in 1978.

Moving from a medium to a large scale installation prompted us to carry out an operation review on our entire data processing function to determine the need for change in our method of operation. Many valid recommendations for improvement were forthcoming which we plan to implement in 1978.

Our present on-line savings system has expanded to a total of 105 branches, which has taxed our capacity to the point where the balance of our branches will remain on a manual basis until conversion to our new system.

Emphasis in 1978 will be on converting from the present on-line savings system to the new system. We plan to start this conversion in July and by year-end it is anticipated all branches presently on the on-line system will be converted to the new system. The balance of our manual branches will then be converted to the new system and we expect to have this completed by mid-1979.

The communications network established for our new on-line savings system will provide the base for expanding the use of on-line real time systems to other applications. Clearly, we intend to maintain a leadership role in computerization for the mutual benefit of customers and the Company.

In 1977 labour unions expanded white collar organizing campaigns into practically every province in Canada. One branch of Canada Trust has been organized by The Canadian Union of Bank Employees. This branch is located in Simcoe, Ontario, where three bank branches were also organized by the same union. Seven employees are in the bargaining unit defined by the Ontario Labour Relations Board.

The Company is presently requesting a judicial review of the Ontario Labour Relations Board's certification of this union. It is our contention that, as a federal Company, we should fall under the jurisdiction of the Canada Labour Relations Board in identical manner to the banks rather than being subject to the jurisdiction of the various provincial Labour Relations Boards. We have not entered into collective bargaining with the union in Simcoe pursuant to advice from our legal counsel until this jurisdictional issue is resolved.

In the face of organizing campaigns being initiated by a number of unions, we have provided branch managers in each region with a communication program directed to each employee. The objective is to provide factual information to each employee on the individual's right under law if confronted by union organizing activity, including an outline of the obligations and the probable consequences to the employee of union membership.

Experience in 1977 in Canada has indicated that when employees made themselves aware of specific information on union operations, and where these employees had a chance to vote by means of a secret ballot to determine if a union should represent them or not, in the majority of cases the employees voted against the union.

Canada Trust maintains the posture that we are not anti-union but pro-employee. We recognize that every employee has the right, protected by legislation, to join or not join a union. However, this decision must be based on a complete knowledge of the unionization process and its consequences.

We have seen marked growth over the past year in the number of women who have moved into career management, supervisory or specialist positions within the Company.

At the end of 1977, there were 142 women in management and supervisory positions compared to 104 at the end of 1976. This increase of approximately 36% is expected to continue through 1978 as we presently have many women who are formally identified by our career planning system as trainees for supervisory and management positions that will arise in the near future.

It is interesting to note that there has also been a modest growth in the number of women identified as technical specialists.

We fully expect these trends to continue due to our human resources forecast which indicates a need for people who have the skills and attitudes to take advantage of outstanding career opportunities. Our affirmative action programs have not been directed solely at women but to all employees. We expect each employee to decide on their interest in and capability for a career within Canada Trust. Once this has been expressed to management, an information and planning system is available to help them develop the needed skills to pursue their career intentions and to take advantage of our needs for highly skilled individuals in the future.

Although 1978 will likely see a worthwhile increase in the rate of growth of the real Gross National Product over 1977, the pace of activity in Canada will continue to be sluggish. We are expecting quarterly increments in production of around 1% to provide 4% real growth for the year.

This amount of activity will do little to reduce the very high level of unemployment in Canada. The best we can hope for is to lower the rate to 8% by the fourth quarter.

Inflation is in excess of the goals set down by the Anti-Inflation Board. By the end of this year inflation will likely continue to be above 7%, substantially above the 4% target set in 1975. The whole future of controls in Canada is still an open question. A newly formed government may decide to take a fresh look at price and wage determinants later this year.

Both residential and non-residential construction will be affected by historically high inventories of vacant units. It is hard to forecast more than 225,000 housing starts and business non-residential construction should be up a modest 2% to 3%.

Exports should be an area of strength. If the U.S. economy achieves an increase in real G.N.P. of 4%, the lower Canadian dollar should boost our exports and allow us to show a good surplus on Merchandise Trade Account.

It is our view that the federal government cannot and should not do anything to stimulate the economy at this time. The continuing huge cash requirements re-emphasize each year the lack of discipline that Ottawa has imposed on its own operations. More importantly the unfortunate expansionary policies which were followed in the earlier years of the decade must be recognized by sensible people to have been the driving force behind our inflationary problems.

It is appropriate now to stop worrying about MORE. We suspect individuals and businesses who concentrate on doing what they have been doing more efficiently will be the ones who enjoy a prosperous 1978.

To the 3,500 men and women of Canada Trust belongs the credit for the year's accomplishments as set forth in the 1977 Annual Report and in the additional information which I have just given. Their dedication to the task of making Canada Trust an even better place to do business is responsible for the gratifying results attained in a year in which the business environment was far from easy.

Undoubtedly 1978 will bring new and varied challenges and opportunities. All of us at Canada Trust look forward to the prospect of attaining new levels of achievement in a somewhat uncertain environment.

